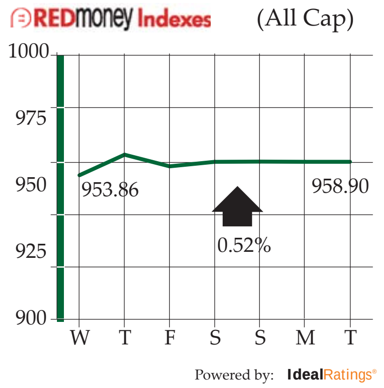
Islamic Finance *news*

The World's Leading Islamic Finance News Provider

REDmoney publication

15th May 2013



Volume 10 Issue 19

www.islamicfinancenews.com

Islamic carbon trading: Goldmine or minefield?

In our continued quest to explore the most thought-provoking trends in the industry, Islamic Finance *news* turns its focus on what many are calling the next big thing in emerging markets — renewable energy. Over the next few issues, we will discuss some of the major trends emerging in this new and exciting arena: including ethical investment funds, green Sukuk and clean energy financing. This week, however, we look at one of the most provocative and yet promising trends to emerge from the sector — the potential for Shariah compliant carbon trading.

Carbon trading is a form of permit trading that specifically targets carbon dioxide (CO2) emissions and the market has seen rapid growth as countries seek to reduce emissions in line with their obligations under the Kyoto Protocol: the first phase of which ended in 2012 and the second phase of which runs from 2013-20.

Most emission reduction programs operate under a 'cap and trade' system, which sets a cap on allowable emissions and then distributes or auctions off emissions allowances totalling this cap. Firms that do not have enough credits to cover their requirements must either reduce their emissions or buy spare credits from another firm; thus creating a market for trade. As a general rule, one emissions permit (or credit) equates to one metric ton of CO2; and international transfers of credits are verified by the United Nations Framework Convention on Climate Change (UNFCCC).

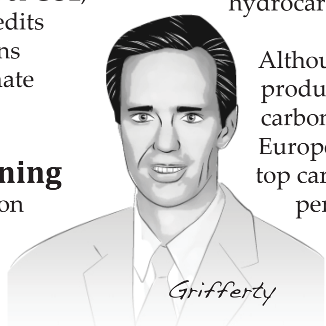
Western market weakening

The EU has led the way for carbon trading and the European Union Emissions Trading System was the first and remains the biggest major emissions trading system in the world. Of the five global exchanges currently trading in UNFCCC carbon credits, all are based in Europe: the European Climate Exchange, NASDAQ OMX Commodities Europe, Paris-based Powernext, Commodity Exchange Bratislava and the European Energy Exchange (the Chicago Climate Exchange ceased trading in 2010). In the last decade, the value of the global carbon market grew from US$727 million in 2004 to around US$118 billion in 2008 and an estimated US$300 billion in 2009, with growth forecasts of 68% per year to 2013. Some analysts even suggested that the total market value could eventually reach US$3 trillion — twice the size of the oil market.

However the global financial crisis, followed by the Eurozone debt crisis, has seen the UN carbon credit market collapse. The price of Certified Emission Reductions (CERs) fell from highs of US$20 in August 2008 to around US$3 in September 2012 and by April this year had plummeted to just 1 US cent, driven by oversupply and a lack of demand due to the recession.

Middle East opportunity

Michael Grifferty, the president of the Gulf Bond and Sukuk Association, warned Islamic Finance *news* that: "The Middle East is seeing some of the fastest growth in hydrocarbon consumption globally."


Grifferty

Although the region currently produces only 5% of the world's carbon (compared to 32% for Europe), four out of five of the top carbon-producing countries per capita are located in the region: Qatar (1), Kuwait

continued on page 3

DEALS

Saudi Basic Industries Corporation to issue Sukuk to fund projects

Bank Asya appoints delegate and principal paying agent for US$250 million Sukuk

Dairy firm **Almarai** to issue maiden international Sukuk

Dubai Islamic Bank receives approval to execute **Tamweel** share swap today

Dana Gas completes Sukuk refinancing

Bank Asya's Sukuk Murabahah oversubscribed by US$157 million

The **Central Bank of Bahrain**'s Sukuk Ijarah oversubscribed by 107.5%

EXIM Bank to sell non-ringgit denominated Sukuk in 2013

Malaysia-based **Puncak Niaga Holdings** to issue RM165 million (US$55 million)-worth convertible Sukuk

CPC Holding, a subsidiary of **Saudi Binladin Group,** signs a US$150 million Murabahah financing facility

Dubai Group announces debt restructuring plans

Aljazira Takaful Ta'awuni launches IPO on the 13th May

Qatar Islamic Bank considers assuming role as primary dealer in the **International Islamic Liquidity Management**'s maiden Sukuk

Dubai Investments Company looks to issue US$300 million Sukuk in the next quarter

The **IDB** to support the Egyptian government's bid to fund US$15 billion in projects via Sukuk

NEWS

Emirates NBD to set up representative office in Ghana

President Mohamed Morsi endorses Egypt's Sukuk law

Islamic finance legal network **iSfin** chooses **Patton Boggs** to be its first representative law firm in the US

Telekom Malaysia is liquid enough to redeem its Sukuk due on the 31st December

Islamic banking not on the **Central Bank of Azerbaijan's** agenda

The governor of the **Reserve Bank of India** suggests new regulations to accommodate Islamic banking in the country

Yields on Malaysian Sukuk anticipated to fall further

Securities and Exchange Commission of Pakistan establishes Shariah advisory board

Healthy deal pipeline for Turkey

THB6 billion (US$203.5 million) boost for the **Islamic Bank of Thailand**

Pakistan's **Securities and Exchange Commission** replaces current Ijarah Agreement with Short Form Ijarah Agreement to maximize efficiency

Arcapita Bank seeks US court approval to exit Chapter 11 and arrange US$350 million in Shariah compliant financing

Dubai Financial Market's chairman, Abdul Jalil Yousuf Darwish, reaffirms efforts to boost bourse's involvement in Islamic finance

Dubai government considers tapping into the capital market in light of recovery in the real estate sector

Bank Nizwa collaborates with **INCEIF** for training

Meethaq offers Musharakah-based home financing for Oman nationals

"Biggest" cyber scam to hit the Middle East prompts calls for tighter consumer banking regulations

The world's largest petrochemicals producer, **Saudi Basic Industries** contemplates new Sukuk issuance

Ahlibank's Al Hilal MENA Fund to be launched on the 22nd May

Dubai Islamic Bank's debt restructuring boosts investor confidence

Abu Dhabi Islamic Bank sees a 10.7% rise in profits for the first quarter

OCBC Bank Malaysia sees 34% leap in Islamic banking income

Dubai Financial Market's net profit down by 11.5%

Abu Dhabi Islamic Bank-Egypt makes its first ever profit in the first quarter

Gulf Finance House's net profit up by 50% in the first quarter

Dubai Investments Company records an increase of 97% in profits for the first quarter

Barwa Bank's first equity fund reports a capital gain of QAR100 million (US$27.46 million) in the first quarter

Amlak Finance seeks extension on US$2 billion debt after protracted talks with creditors

Abu Dhabi National Takaful Company's profit up by 61% for the first quarter

TAKAFUL

Securities and Exchange Commission of Pakistan issues orders, warning letters and show-cause notices against Takaful firms

Cobalt Underwriting in latter stages of finalizing expansion into new markets

Islamic Corporation for the Insurance of Investment and Export Credit launches Takaful product to enhance ratings of sovereign Sukuk issuers

Takaful Malaysia expects to see boost in revenue contributions from Indonesian unit once new legislations are introduced in 2015

RATINGS

Fitch assigns ratings to **Qatar Islamic Bank** and **Qatar International Islamic Bank**

RAM reaffirms **Menara ABS**'s RM1 billion (US$333.36 million) Sukuk and revises its outlook to stable

Fitch affirms **Bank Audi**'s long-term issuer default rating at 'B'

MOVES

Shyam Sankar leaves **Medgulf Allianz Takaful**

Fayyad Abdel Moneim appointed as Egypt's finance minister in a cabinet reshuffle

Business Bermuda CEO, Cheryl Packwood, retires after six years of service

Islamic carbon trading: Goldmine or minefield?

Continued from page 1

(3), the UAE (4) and Bahrain (5) — and per capita energy consumption in the GCC is twice as high as the European average (see Figure 1). Recent research from environmental initiative Carboun also notes that while global average emissions have stabilized, MENA carbon emissions are predicted to double over the next 30 years.

These troubling figures, combined with regional concerns over dependence on oil reserves, have led to a growing interest in clean energy which is driving massive investment across the region. Ivano Iannelli, CEO of the Dubai Carbon Center of Excellence (DCCE), confirmed to Islamic Finance *news* that: "The investment in clean technology is in the range of hundreds of billions of US dollars per year, and growing steadily."

A tempting prospect

Although large-scale investment in renewable energy is among the most high-profile of attempts to combat this trend, the focus has also turned to stabilizing and reducing the current emission levels in the region.

Carbon trading represents a tempting prospect in that it offers not only a relatively effective financial mechanism to encourage ethical and environmental improvement, but combines this with a viable avenue for investors to access a profitable alternative asset class. Although primary EU prices may have collapsed, the global carbon market is still an attractive prospect. According to the most recent World Bank report, 'State and Trends of the Carbon Market 2012', the global carbon trading market is currently worth US$176 billion, representing an annual growth of 11% and is expected to reach US$1 trillion by 2025. "Even as prices declined," explains the report, "the value of the global carbon market increased… driven predominantly by a robust growth in financially motivated transactions".

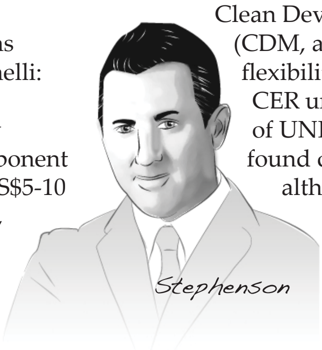
The regional market remains small and according to Iannelli: "The voluntary credits sold to individual investors only represent a very small component of the pie, in the range of US$5-10 million per year." However, with the growing focus on climate change and a regional investment trend towards renewable energy sources; and as investors see positive returns on mainstream carbon trading activities, this could develop rapidly as the industry realizes the opportunities inherent in the market.

Charles Stephenson, the director of international emissions trading and environmental consultancy firm Advanced Global Trading (AGT), notes that: "We have definitely seen more interest in carbon trading here, as we are on the ground in the region working on it every day. It's still hard work to make some GCC residents aware of the issue of carbon emissions. But interest is definitely growing, simply through the returns generated over the past 24 months."

"The global carbon trading market is currently worth US$176 billion, representing an annual growth of 11% and is expected to reach US$1 trillion by 2025"

Slow growth

Most activity in the sector has so far occurred in the conventional sector and the DCCE has registered five projects in Dubai for carbon credits under the Clean Development Mechanism (CDM, a Kyoto Protocol-based flexibility mechanism which issues CER units under the guidance of UNFCCC) for which it has found corporate buyers. However, although analysts predicted as long ago as 2008 that the carbon credit business in the MENA region had the potential to grow to over US$2 billion, progress has so far been slow.



Masdar, a flagship Abu Dhabi-based clean energy company, in 2008 set up a project to reduce or capture emissions from oil and gas companies in the region and sell on the excess credits; with a planned 500km carbon emissions pipeline network across the region capturing 6 million tonnes of emissions per year. However, so far only one section of the pipeline, worth US$200 million, has been built. In fact according to Barclays, of the 5,000-plus projects registered to sell carbon credits worldwide, only 111 are in the Middle East — or just 2% of the total.

Islamic interest

Yet as the sector's profile grows, so too does investor interest — particularly among wealthy Muslim investors in the region, who are attracted both by the positive returns and the perceived ethical benefits of the asset class. Stephenson explains that: "Trading volumes among Muslim investors were initially slow. However, they have picked up massively and we believe most of our Muslim investors have taken a personal view that the existence of carbon credits only does good for the world. As Islamic investors have seen large returns over the past 24 months, more have dipped their toe into the water."

The Islamic finance industry is in fact no stranger to the world of carbon trading and motions towards creating an Islamic trading platform were made as long ago as 2008, when it was reported that Doha Bank planned to launch a US$1 billion Sukuk in order to fund renewable energy investments including the Gulf's first carbon credits exchange; an electronic platform based in Qatar and expected to cost around US$27 million. However, as the global financial crisis hit and financial dynamics changed, these plans were put on hold.

Non-starter

Also in 2008, the Dubai Multi Commodities Center (DMCC) signed an MoU with UK carbon credit firm EcoSecurities to promote Dubai as a leading regional center for carbon emission reductions and trading, with a

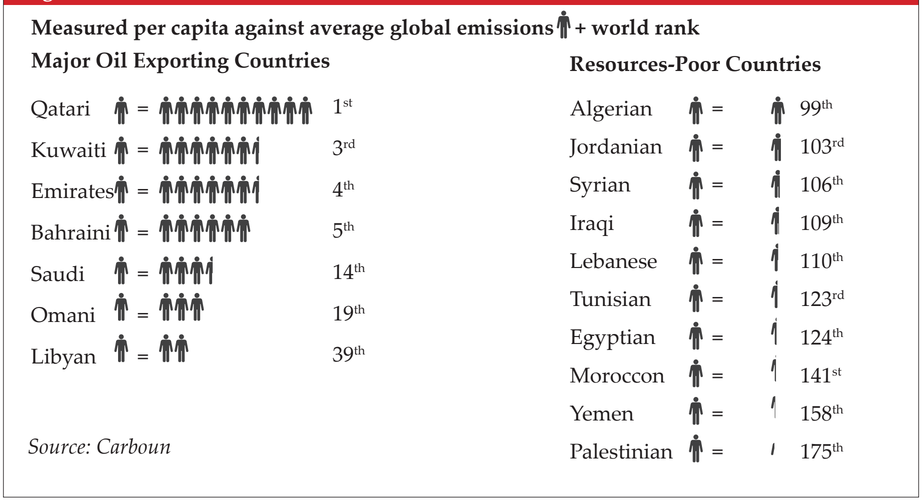
continued...

Islamic carbon trading: Goldmine or minefield?

Continued from page 3

focus on identifying and developing clean technologies to generate carbon credits through projects compliant with the CDM. In January 2008, the DMCC also signed a partnership with UAE firms Crescent Petroleum and Dana Gas aimed at developing clean energy projects and generating CERs in the region. At the launch of the initiative Dr Tilak Doshi, the then-executive director for energy at the DMCC, stated that: "In its mandate to facilitate the growth of the energy business in Dubai, DMCC has taken this strategic initiative with EcoSecurities to promote emission reduction investments which yield both economic and environmental benefits."

Figure 1: Carbon emissions of Middle East residents



> ***"There is perfect synergy between carbon trading and Islam"***

However, although the DMCC hoped to start making revenue from the initiative by 2010 and Doshi anticipated carbon trading to begin "within three to five years", this failed to materialize and the exchange has stepped back from the sector to focus on other areas. When contacted by Islamic Finance *news* Paul Boots, the managing director of DMCC Tradeflow, the Islamic platform of the exchange, affirmed that: "The DMCC Tradeflow platform currently offers commodities such as oil, metals and foodstuffs. As the use of the platform grows, we will always look to innovate and add asset classes that may be acceptable to our scholars."

This 'wait and see' approach seems to be an attitude taken by many of the leading players in Islamic commodities trading. Tom Guest, an associate director with Eiger Trading Advisors, explained to Islamic Finance *news* when questioned about the prospects for Shariah compliant carbon trading that: "Although it was something we looked at about two years ago, using the VCS credits (Voluntary Carbon Standard, a global benchmark founded by The Climate Group, the International Emissions Trading Association and The World Economic Forum), we are now focused on physical commodities, trade finance and commodity-backed Islamic products." However, he added: "The emissions market is something we may look at again in the future, as we certainly acknowledge its potential within the Islamic/ethical products sphere."

A new attempt

Only last year a new attempt was made to provide the growing numbers of Muslim investors with an Islamic platform on which to trade. In 2011 London-based AGT opened a carbon trading floor in Dubai, open to individual investors with a minimum spend of just US$5,000. And in July 2012, the company announced further plans to launch the world's first fully Shariah compliant global trading platform. Omar Al Jaddou, the director for special projects at AGT, commented at the time that: "There is perfect synergy between carbon trading and Islam."

It was hoped that the launch would kickstart the market across the wider region, with Omar confirming that: "We have a few clients [Islamic companies and insurance firms] that would be looking to offer their customers the choice of trading carbon Islamically for corporate social responsibility (CSR) purposes. We also expect the approval to filter across all our channels and be received well. We are initially focusing on the GCC, but within that, we are aware of the wider implications of getting success in a country like Saudi Arabia. It would open the door to people that are conservative and wouldn't necessarily go for this type of alternative investment."

However unfortunately this attempt too, was doomed to failure. Despite seeing success in its mainstream platform, Stephenson explained to Islamic Finance *news* this week that although AGT set the wheels of an Islamic version in motion: "As we went along the process it transpired the sheer number and variations of credit in operation made the process much more difficult for a Shariah board to issue a Fatwa than we expected. The process was also going to be restrictively expensive for one organization such as AGT to push through as a result, with literally hundreds of contracts needing to be evaluated individually — all at significant cost. Therefore, as it stands unfortunately we are no further forward."

Halal or Haram?

Shariah compliance is one of the key issues currently inhibiting the development of Islamic carbon trading. Experts such as Dr Naila Nazir, an associate professor with the Department of Economics at the University of Peshawar in Pakistan, believe that: "The line on which the present trading system is conducted is not permissible

continued...

Islamic carbon trading: Goldmine or minefield?

Continued from page 4

under Shariah." In a 2012 study, Nazir explained that carbon trading is fundamentally non-Shariah compliant because it is based on an artificial commodity (the right to emit carbon dioxide) and is thus not asset-based.

However, others disagree. Iannelli explains that: "CO2 credits are a commodity based on adding value to existing project resources, and not a standalone intangible asset. Just like currencies which are backed by bank guarantees, CO2 credits are permits backed by an economic value given to specific commodities (i.e. power, water, fuel). As such, we strongly support Islamic banking compliance towards UN and government-backed CO2 emission reduction permits." He confirms that: "(Although) we cannot foresee compliance in the voluntary market… the general consensus from all Shariah boards and scholars we have spoken with is that carbon credits should be Shariah compliant."

Stephenson concurs with this view. "There are two completely different ways to look at carbon credits — permission to pollute would of course be Haram — but each carbon credit is actual proof of a saving of CO2, which of course is helping the environment; and this is the overwhelming view."

> **"Just like currencies which are backed by bank guarantees, CO2 credits are permits backed by an economic value given to specific commodities"**

The stumbling block in fact has been more of a question of the legal definition of a carbon credit and how it is accepted by the Shariah community. "Even within the VCS Standard Carbon Credit system, which AGT trades exclusively, there are probably 100 different methodologies to determine whether a project should be awarded a credit," explains Stephenson. "Each of these methodologies needs to be investigated by a board, which is just not feasible."

Ethics vs. profits

Another issue arises with the conflict between ethical principles and financial gain. Iannelli warns that: "Carbon credits are not a way for individuals to make money, but for businesses to improve their operations and activities. The 'trading' of emissions on an individual basis is neither profitable nor encouraged at this stage. Carbon credits are not a form of investment but a commodity used by companies to offset their emissions either for compliance (e.g. European based companies with emission caps) or voluntarily for CSR and to meet internal emissions targets."

Iannelli emphasizes the importance of differentiating between traders and brokers, who he believes "do not add value to the industry or sector, but merely generate short-term profitability at high risks" and ethical finance vehicles such as CDM which "has successfully harvested private sector investment in sectors of socio-economic relevance".

continued...

Scholar's view

Renowned scholar Mufti Aziz Ur Rehman gives Islamic Finance *news* his exclusive opinion on the Shariah compliance of carbon trading:

"The intended purpose of carbon trading appears to be in line with Islamic principles in that it aims to reduce excessive greenhouse gas emissions, namely man-made carbon dioxide and in turn protect the environment. It is true as a Muslim, it is a prerequisite to keep oneself, the area one occupies and the environment clean from all harmful things. Cleanliness is a big part of faith. Therefore, the control of excess man-made production of carbon dioxide falls into this Islamic duty.

The demand for such a product is growing, especially in the UAE which is one of the leaders in reducing its carbon footprint and has a growing demand for homegrown carbon credit trading projects. A Shariah compliant product would open the door to a larger market enabling conservative and Muslim customers who wouldn't necessarily go for this type of alternative investments to get involved. Indeed, some Islamic finance companies and Takaful firms have shown interest in offering their customers the choice of carbon trading, but it remains to be seen how to treat it according to Islamic rules and market it as a Shariah compliant product.

So the question then arises: why isn't carbon trading a Shariah compliant product already? The main question with regards to carbon trading is what is required to make what appears to be an artificial commodity trade into a real trade.

My general opinion on the field and from my experiences in the discussions I have had with the companies, I feel the area is a totally new market and needs a lot of research and review. Based on my own understanding and research. I suggest the following:

As with any other Shariah compliant product development and approval process, some indispensable requirements are needed.

1. First of all a Shariah Board and adviser has to be appointed.
2. The Shariah Board needs to know about the questions raised and doubts created regarding an issue and they have to convince people on the same.
3. The Shariah Board also needs to confirm the auditing setup and fund uses.
4. This Shariah Board will come to the conclusion approval/refusal/alternative and will pronounce an official Fatwa."

Islamic carbon trading: Goldmine or minefield?

Continued from page 5

Although brokers such as AGT may not agree with this interpretation, a Dubai-based trader agrees that: "We have found people and institutions are more inclined to trade for profit rather than environmental good."

Where next?

So given these internal conflicts, what can we expect for the Islamic carbon trading sector in the coming year? Stephenson assures us that: "There is progress being made in terms of formal regulation of the carbon trading market and developments within the registries that hold carbon credits. All of these developments should act to make the market more transparent and safer for investors and we hope to have some exciting announcements in these areas over coming months."

However, others are less positive. Nazir believes that although carbon trading does hold real Islamic potential because Islam promotes the share management of natural resources, it is imperative that an alternative and fully Shariah compliant trading system be developed alongside the conventional system, which addresses its inherent problems. She suggests that this could include a range of products, including: "Sukuk bonds for CDM projects, Ijarah for project equipment, Takaful for risk sharing, and Musharakah among companies to start joint projects. The trades should be asset-based and the role of the artificial commodity should be eliminated."

Another path

Is the development of a wholly new and independent Islamic trading system realistic, however? It is clear that so far, all attempts to create a purely Islamic platform have failed and there is little indication of success in the future, despite the rich potential in the market. Perhaps instead, it is time to look at alternative options. The DCCE, for example, is actively looking into various alternatives to leverage ethical finance.

One way, it suggests, is through the development and registry of single mission reduction projects for carbon credits. Another is to facilitate easy access to carbon credit registration through the development of 'umbrella programs' — sectorial mechanisms or programs of activities to assist with the project finance itself, but not available as investment options.

However, as the first phase of the Kyoto project ends, it is inevitable that new market mechanisms will be leveraged which must focus on stringent compliance in order to maintain the integrity of carbon credits and enable them to carry a real and tangible value. Iannelli believes that: "There is great demand for non-real estate-focused investment vehicles (for Islamic investors) that harvest the ponytail of carbon credits."

However, he suggests that investors should be wary of relying on this uncertain and potentially un-Islamic resource. "The community should instead look into the green Sukuk planned for the coming years as an alternative, as opposed to the short-term transactions and quick profits suggested by brokers."

And next week, we will be doing just that. — *LM*

DEALS

Sukuk preferred

SAUDI ARABIA: Petrochemical group Saudi Basic Industries Corporation (SABIC) is planning to fund its SAR40 billion (US$10.66 billion)-worth of projects currently in the pipeline by issuing Sukuk either at the end of this year or next year, depending on market conditions and the development of the projects, according to Mutlaq Al Morished, the firm's CFO.

BNY Mellon handles Turkish Sukuk

TURKEY: New York-based investment company BNY Mellon has been appointed as delegate, principal paying agent, transfer agent, registrar and Irish listing agent for Bank Asya's US$250 million Sukuk. It will perform fiduciary duties, make profit and principal payments to investors and handle administrative duties related to the certificate issuances on behalf of the bank.

International debut

SAUDI ARABIA: Dairy company Almarai is planning to issue its debut international Sukuk worth US$500 million in the next 12 months, with an eye on issuing a hybrid Sukuk to finance the company's growth strategies, according to Paul Louis Gay, the company's chief financial officer. Prior to this, the company has only issued riyal-denominated Sukuk. Almarai also plans to invest SAR3 billion (US$799.84 million) annually for the next five years.

Good to go

UAE: Dubai Islamic Bank has been authorized to issue new shares in order to execute a share swap for Tamweel investors who accepted the offer within the allotted time frame. The share swap was executed on the 9th May.

Restructuring complete

UAE: The refinancing of Dana Gas' US$1 billion Sukuk Mudarabah has been completed, upon receiving approvals from its Sukuk certificate-holders and shareholders. The trust certificates, comprising US$425 million in convertible Sukuk and US$425 million in ordinary Sukuk, made up the US$850 million 'New Sukuk' listed on the Irish Stock Exchange. The new certificates were issued via its SPV, Dana Gas Sukuk and will underpin the company's growth plans in Kurdistan, Egypt and the Eastern Mediterranean.

Oversubscribed Sukuk

TURKEY: Bank Asya's US$230.5 million and EUR115.3 million (US$151.3 million) syndicated dual-currency Murabahah financing facility, launched at US$225 million, was oversubscribed by US$157 million to US$382 million. ABC Islamic Bank, Barwa Bank, Emirates NBD Capital, National Bank of Abu Dhabi, Noor Islamic Bank and Standard Chartered were the initial mandated lead arrangers and the bookrunners for the deal.

High demand for CBB

BAHRAIN: The Central Bank of Bahrain (CBB)'s BHD100 million (US$263.21 million) long-term Sukuk Ijarah was oversubscribed by 107.5%. The Sukuk will mature on the 13th May 2015 with an expected return of 1.45%.

International Sukuk

MALAYSIA: Export-Import Bank of Malaysia (EXIM Bank) is planning to issue an international non-ringgit denominated Sukuk this year, marking its second entry into the global debt market following the issuance of a US$1.5 billion (RM4.46 billion) multicurrency medium-term note program last year. The bank expects its total loan disbursement to hit RM5 billion (US$1.68 billion) this year and intends to increase its Islamic finance portfolio to at least 30% of total loans by 2015.

Sukuk issuance

MALAYSIA: Water treatment company Puncak Niaga Holdings is planning to raise RM165 million (US$55 million) through a five-year redeemable convertible Sukuk to fund assets. With RM5.6 billion (US$1.87 billion)-worth of borrowings, the company will also issue up to 40.91 million warrants on the basis of 10 shares per warrant.

Innovative structure

UAE: CPC Holding, the industrial unit of Saudi Binladin Group, has secured a US$150 million Murabahah facility from Standard Chartered which will be channelled towards CPC's 98%-owned subsidiary, CPC Equipment Rental Company.

Dubai Group announces debt restructuring plans

UAE: Dubai Group's announcement to restructure up to US$10 billion of its debt is said to be a positive sign of the emirate's recovery, as the deal marks the last major debt restructuring following the 2009 Dubai credit crisis, according to sources. The investment firm, which is owned by the Dubai ruler Sheikh Mohammed Rashid Al Maktoum, has been in talks with its creditors since the credit crisis caused property prices to plummet in the emirate — hurting the group's portfolio of assets.

Dubai Group, which is a unit of Dubai Holding, is said to currently owe up to US$6 billion to its creditors, comprising mostly of Gulf and Egyptian banks. Emirates NBD, Mashreq and Natixis are amongst those that are owed a major chunk of the debt. Terms of the restructuring have been tabled to the group's creditors and are awaiting their final approval. "We are now nearing the end and are confident that all parties will work with us to finalize the restructuring by early summer," said Fadel Al Ali, the acting CEO of Dubai Group.

Part of the restructuring plan is said to include a 12-year extension on its current repayments, as well as the inclusion of creditors onto the group's board. The restructuring proposal is expected to go through in a matter of weeks and it is said that there is much at stake for the emirate as a whole, should the deal fall through. "The conclusion of this restructuring would remove substantial uncertainty and certainly be positive for investor sentiment towards the Dubai story in general," an industry player is quoted as saying.

Dubai Group's investments include stakes in Bank Muscat, Bank Islam Malaysia and EFG-Hermes. Over the last year, Dubai has experienced recovery across various sectors in its economy; primarily in property and tourism.

IPO sale

SAUDI ARABIA: Aljazira Takaful Ta'awuni, a subsidiary of Bank AlJazira, launched an IPO on the 13th May comprising 10.5 million shares which will continue to be sold until the 19th May. The firm appointed Aljazira Capital as the underwriting manager and AlBilad Investment Company as the underwriter for the deal.

IILM's impending Sukuk

GLOBAL: The group CEO of Qatar Islamic Bank, Basseel Gamal, has said that the bank is considering taking part in the International Islamic Liquidity Management Corporation (IILM)'s upcoming Sukuk issuance, while Malaysia-based Bank Islam is currently also awaiting internal approval from its Shariah board. The IILM has signed agreements with eight primary dealer banks, one of which is domiciled in Luxembourg.

DIC Sukuk on the horizon

UAE: Government-backed Dubai Investments Company (DIC) has confirmed that the AED1.1 billion (US$300 million) Sukuk it plans to issue will be finalized in the coming quarter, while the firm is also actively looking to divest some of its assets. DIC's portfolio includes the Dubai Investments Park and private equity investor Masharie.

Sukuk support

EGYPT: The government of Egypt is expecting to fund annual projects worth between US$10-15 billion through Sukuk. The IDB will be subscribing to the projects — which include the establishments of grain storage silos and a railway — and promoting the Sukuk bids, while providing technical support for the pricing of IPOs, according to Dr Abdulaziz Al Hinai, the IDB's vice-president.

DEAL TRACKER Full Deal Tracker on page 31

ISSUER	ISSUING CURRENCY	SIZE (US$)	DATE ANNOUNCED
Egypt Government	US$	10-15 billion	14th May 2013
Puncak Niaga Holdings	RM	55 million	14th May 2013
Dubai Investments Company	US$	300 million	13th May 2013
Almarai	US$	500 million	9th May 2013
Saudi Basic Industries Cooperation (SABIC)	SAR	10.66 billion	8th May 2013

Foreign investors rekindle enthusiasm in Gulf markets

GLOBAL: Recovery in the GCC economy, coupled with relative political stability following the end of the three-year Arab Spring affecting major economies such as Egypt, is said to have spurred foreign investor interest in the Middle East markets. According to analysts, institutional investors such as pension funds and insurance companies have also added stability to Gulf equity markets by investing in the UAE market since the beginning of this year, prompting stock market movement and growing the demand for equities.

The UAE in particular has exhibited growth across major sectors including housing, tourism and development; increasing investor confidence in a new phase of economic growth in the region following the credit crisis. Speaking to a Gulf-based daily news source Faid Al Said, the head of equities for ING Investment Management in Dubai, said: "After the Arab Spring, we saw a lot of outflows from international investors leaving the region."

However, equity prices have shown significant improvement in the first quarter of this year, with the Abu Dhabi Securities Exchange General Index up by 36.4%; the Dubai Financial Market General Index up by 41.9% and the Qatar Exchange Index up by 5.9%.

Government-backed entities looking to list and go public via IPOs through the sale of state-owned assets across Qatar and the UAE have also piqued the interest of foreign investors, with four companies owned by state-owned Qatar Petroleum expected to go public in the near-term. Qatar-based Barwa Bank has also come to market with plans to launch an IPO worth QAR2.05 billion (US$562.63 million).

In terms of construction, the Executive Council of the Abu Dhabi government this week approved plans to spend AED1.5 billion (US$408.27 million) on infrastructure projects across the emirate, boosting the UAE's position as the largest construction market in the Middle East for the first time since 2008, with a total of US$16.2 billion-worth of contracts awarded in 2012.

AFRICA

Reaching out to Africa

GHANA: Emirates NBD, parent company of Emirates Islamic Bank, has announced its plans to establish a representative office in Ghana to leverage on the economic opportunities both in the country and across sub-Saharan Africa as a whole. Faisal Lalani, the executive vice-president of the bank, stated that it will be collaborating with recognized local banking institutions such as Ecobank in terms of cross-border liquidity, commodity and trade financing.

Long road to approval

EGYPT: President Mohamed Morsi has signed a new law allowing the state to issue Sukuk in an effort to ease an expanding budget deficit. The law was previously criticized by the liberal opposition and conservative parties as a method for foreigners to own shares of the country's assets. However, the law bans the issuance of Sukuk for state-owned assets.

The Egyptian finance minister, Fayyad Abdel Moneim, has also asserted that the downgrade of the country's domestic long-term rating to 'CCC+' and foreign and local short-term rating to 'C' will not affect the country's Sukuk applications.

AMERICAS

Entering US market

US: Islamic finance legal network iSfin has partnered with Washington DC-based Patton Boggs to be its first representative US law firm.

ASIA

Cash rich

MALAYSIA: The chief financial officer of Telekom Malaysia, Bazlan Osman, has said that the national telecommunications company has enough cash to redeem its RM2 billion (US$671.52 million) Sukuk maturing on the 31st December 2013 and has no intentions of issuing more bonds in the near-term. The company will also be distributing a final dividend of 12.2 Malaysian sen (4.09 US cents) per share on the 27th May. The total dividend payout including interim dividend of RM787 million (US$263.96 million) or 22 Malaysian sen (7.38 US cents) per share, exceeded its dividend obligation of RM700 million (US$234.78 million).

No basis for action

AZERBAIJAN: The implementation of Islamic banking in Azerbaijan is not on the agenda of its central bank, according to its chairman, Elman Rustamov. "It is necessary to first create a legislative basis, then a regulatory one based on it, then licensing and the issuance of permits can begin. If there is no such basis, these actions remain exploratory by nature," says Rustamov. The country's Islamic banking sector is currently represented by the Islamic banking window of International Bank of Azerbaijan.

Political action needed

INDIA: Dr Duvvuri Subbarao, the governor of the Reserve Bank of India, has suggested to the Indian government that it should pass new regulations to successfully implement an Islamic banking model in the country. The governor said that it is currently "impossible" to introduce Islamic banking due to inconsistencies with the current banking regulatory system which involves the charging and receiving of interest. "It can be a parallel system for which a separate regulatory set up can be created," said Subbarao.

Post-election promises

MALAYSIA: Following the recent general elections, analysts are expecting the Malaysian prime minister, Najib Razak, to decrease the country's budget deficit as he earlier promised; which is anticipated to cause yields on Malaysian bonds to drop further. According to Bloomberg, borrowing costs on local-currency 2022 Sukuk dropped seven bps this week to a nine-month low of 3.46%.

Step forward for SECP

PAKISTAN: A nine-member Shariah advisory board has been established by Pakistan's Securities and Exchange Commission (SECP) to oversee Islamic finance transactions in the country.

Healthy deal pipeline

TURKEY: HSBC Amanah predicts Sukuk sales in the republic of Turkey to hit US$3 billion this year, as corporates and government-related entities exhibit growing interest in tapping the country's Islamic capital market. According to data from Bloomberg, Sukuk sales in the country have reached US$1 billion so far; with demand from Gulf investors for Turkish paper expected to further drive yields down.

It was announced on the 7th May that the government's initiative; the Istanbul International Financial Center (IIFC) which was initially tabled in 2009 and is part of the government's Ninth Development Plan 2007-13, will finally take off and funded by Shariah compliant instruments. The sole investment bank mandated to raise money for the project, Aktif Bank, confirmed that it will be issuing Sukuk and floating a Shariah compliant IPO backed by real estate certificates based on the IIFC project before June this year.

A representative of the bank told Islamic Finance *news*: "Investors will have the opportunity to convert the certificates into IIFC property and to invest in the very early stages of the project at a favorable purchase price."

Kuwait Finance House Turkey has also revealed plans to debut a lira-denominated Sukuk worth TRY100 million (US$55.77 million), while Bank Asya recently secured a syndicated Murabahah financing facility worth US$380 million via 28 banks. The facility comprised of a US$230.50 million tranche and a EUR115.30 million (US$151.47 million) segment.

The republic's current ruling party, under the patronage of prime minister Recep Tayyip Erdogan, is said to be actively growing the country's Islamic banking and finance market — or participation banking, as it is called colloquially — to improve trade ties with the Middle East and to encourage already eager Gulf investors into the country.

Recapitalization boost

THAILAND: Government-backed Islamic Bank of Thailand has been given a boost following the Ministry of Finance's approval of a THB6 billion (US$203.5 million) fund for its recapitalization. The bank, which has taken a hit due to excessive non-performing loans, will receive the first capital injection of THB920 million (US$31.2 million) in June. Of the total THB6 billion (US$203.5 million) half will be provided by the Ministry of Finance, while the other THB3 billion (US$101.76 million) is expected to come from the Government Savings Bank and Krungthai Bank — both shareholders of the bank.

Time and cost effective

PAKISTAN: The Securities and Exchange Commission of Pakistan has approved a Short Form Ijarah Agreement to be utilized in place of the model Ijarah Agreement in an effort to boost efficiency and cost effectiveness when multiple Ijarah transactions with the same client are executed.

GLOBAL

Arcapita seeks approval

GLOBAL: Bahrain-based Arcapita Bank is expected to file a request to the US court on the 15th May to exit Chapter 11 protection; allowing the bank to arrange US$350 million in Shariah compliant financing to be syndicated and arranged by Goldman Sachs.

MIDDLE EAST

Continued efforts for DFM

UAE: Despite experiencing a decline in net profits for the first quarter, the Dubai Financial Market (DFM) has reaffirmed its commitment to creating a favorable environment for the issuance and listing of Sukuk, according to Abdul Jalil Yousuf Darwish, its chairman.

Dubai exchanges have experienced a lift in nominal value of Sukuk listings to US$11.6 billion, due to listings from the government of Dubai, Emirates and Dubai Electricity and Water Authority. As a show of commitment to the industry, DFM released its 'Standard for issuing, acquiring and trading Sukuk' draft in January this year.

Bouncing back

UAE: The government of Dubai is considering bonds and IPOs as a means of raising money in light of improvements in the emirate's real estate sector. The administration's borrowing costs have been reduced by 40% following the sale of its US$750 million Sukuk in January.

Aid for Omani nationals

OMAN: Bank Nizwa and INCEIF have signed an MoU which will see both institutions collaborate to promote training solutions for the Omani Islamic finance industry. The collaboration aims to provide structured training and development initiatives for Omani nationals working in the Islamic finance industry.

Al Bait home financing

OMAN: Meethaq, the Islamic banking window of Bank Muscat, has collaborated with Zawaya Group for Development and Investment to provide a Shariah compliant home financing scheme called Al Bait for Zawaya's Al Hilal project in Baushar. Al Bait home financing is structured on a diminishing Musharakah basis and covers up to 80% of the property value, with a maximum tenure of 25 years.

Scam stimulates security

UAE: The US$45 million cyber heist which recently affected the National Bank of Ras Al-Khaimah (RAKBANK) and Bank Muscat, touted to be the biggest to hit the Middle East so far, has spurred demands for tighter banking

continued...

SABIC contemplates new Sukuk issuance

SAUDI ARABIA: The chief financial officer of Saudi Basic Industries (SABIC), Mutlaq Al Morished, has said that the state-owned company (which is the world's biggest petrochemicals producer by market value) will look to issue Sukuk soon. Speaking to the press, he said: "We will tap the market sometime late this year, or early next year. It's too early to comment on the size of the bond sale, which SABIC would prefer to be Islamic."

The company's project pipeline is currently estimated at SAR40 billion (US$10.66 billion). SABIC is said to have trimmed its operations following a protracted construction and infrastructure slump in the region and a dip in consumer spending on automobiles and appliances. Earlier reports have also alluded to the company looking to expand into the US, with studies on investment opportunities said to be currently underway.

If the deal goes through, it will mark SABIC's third Sukuk issuance following its SAR8 billion (US$2.13 billion) sophomore Sukuk in July 2007. The 20-year Sukuk, which was arranged by HSBC Saudi Arabia, had a call option after five years, allowing for an early repayment. In June last year, the company filed a statement to the Saudi Arabian stock exchange saying that it would purchase the Sukuk's assets pursuant to the terms and conditions, followed by a cessation in trading on the 16th June 2012.

continued...

regulations and augmented fraud prevention measures in the UAE. The Central Bank of the UAE is expected to discuss the security breach, while authorities have been urged to expedite the implementation of the chip and pin system, which was postponed at the end of last year.

RAKBANK suffered an estimated loss of AED17.4 million (US$4.76 million) while Bank Muscat lost OMR15 million (US$38.84 million) as a result of the scam.

Mudarabah fund debut

OMAN: Ahlibank will launch the Al Hilal MENA Fund, an open-ended fund based on the Mudarabah structure, on the 22nd May. The fund will open at an initial subscription at OMR1.02 (US$2.64) per share until the 20th June.

Growth in share value

UAE: Dubai Islamic Bank (DIB)'s corporate debt restructuring fared well with investors as the bank led this week's market rally with a 2.4% advance in share price to AED2.94 (80 US cents), making it the most heavily traded stock on the DFM General Index. This was the biggest advance for the bank's shares since the 5th May when its share price almost doubled, growing 43% to AED2.88 (78 US cents).

RESULTS

ADIB

UAE: Abu Dhabi Islamic Bank (ADIB) recorded a 10.7% increase in net profits to AED340.1 million (US$92.57 million) for the first quarter, compared to AED307.3 million (US$83.64 million) in the same period last year. The bank's total assets rose 15.7% to AED88.7 billion (US$24.14 billion) while its net customer financing grew 8.7% to AED54 billion (US$14.69 billion).

OCBC Bank Malaysia

MALAYSIA: OCBC Bank Malaysia's total income for 2012 rose by 8%, exceeding RM2 billion (US$674.19 million) on the back of a 2% increase in net interest income to RM1.25 billion (US$421.37 million) and a 34% hike in Islamic banking income to RM243 million (US$81.91 million). OCBC Al-Amin, the bank's Islamic banking subsidiary, gained an operating profit of RM99 million (US$33.37 million), charting a 93% rise from 2011.

Dubai Financial Market

UAE: Dubai Financial Market announced an 11.5% decline in net profit for the quarter ended the 31st March to AED27 million (US$7.34 million), compared to AED30.5 million (US$8.3 million) in the previous year. The bourse also registered a 5% dip in total revenue to AED65.7 million (US$17.88 million) from AED69.1 million (US$18.81 million), while its trading value saw a 1.7% increase in the first quarter to AED20.8 billion (US$5.66 billion) against AED20.4 billion (US$5.55 billion) in 2012. A total of AED500 million (US$136.10 million) in foreign investments were recorded for the quarter.

ADIB-EGYPT

EGYPT: Abu Dhabi Islamic Bank-Egypt, previously known as the National Bank for Development, registered its first profit since the 2007 merger; charting a net profit leap of EGP109 million (US$15.62 million) in the first quarter to EGP11.4 million (US$1.63 million) against a loss of EGP97.6 million (US$13.98 million) from the same period last year. The bank's balance sheet saw a 56% growth in its New York assets amounting to EGP1.9 billion (US$272.24 million) while customer deposits increased by 7.6% or EGP800 million (US$114.63 million).

Gulf Finance House

BAHRAIN: Shariah compliant, Gulf Finance House announced a net profit of US$1.5 million for the first quarter against US$1 million in the same quarter last year, marking a 50% increase. The bank's total income dipped to US$11.1 million from US$12.9 million while operating costs were reduced by 30% to US$8.3 million.

Dubai Investments Company

UAE: Dubai Investments Company announced a 97% jump in profits to AED107 million (US$29.13 million) for the first quarter. The firm's revenue increased by 17% to AED649 million (US$176.69 million) while its net worth grew to AED8.7 billion (US$2.36 billion).

The First Investor

QATAR: The assets under management of The First Investor GCC Equity Opportunities Fund (Q), recorded a capital gain of QAR100 million (US$27.46 million) in the first quarter. The fund is Barwa Bank's first 100% Shariah compliant

continued...

Amlak Finance seeks extension on US$2 billion debt

UAE: Sources close to Shariah compliant mortgage provider Amlak Finance say that the company has proposed a 15-year extension on the maturity of its US$2 billion debt and a discount of 30% to US$1.4 billion to its creditor committee; which is headed up by Emirates NBD and comprises of Abu Dhabi Islamic Bank, Dubai Islamic Bank, the Department of Finance of Dubai, Standard Chartered and the National Bonds Corporation.

The company, which ceased trading in November 2008 following the Dubai property crash, has struggled to remain afloat and is currently mired in debt estimated at US$10 billion. According to Bloomberg, the company aims to refocus its strategy on mortgage lending and move away from property development.

Talks on Amlak's restructuring began in the first week of January this year, when the company's creditors filed claims against it due to failure to repay its debt. Dubai's minister of economy, Sultan Al Mansoori, has said that the case was "one of the most complicated issues" when it surfaced at the time.

Emaar Properties, which currently owns a 45% stake in Amlak, has said that it will not decrease its investments in the mortgage company and is confident that the company's performance — which has exhibited growth since 2010 — will continue to improve as the Dubai real estate and property market show signs of revival.

continued...

equity fund with an open-ended collective investment scheme managed by its investment arm, The First Investor.

Abu Dhabi National Takaful Company

UAE: Abu Dhabi National Takaful Company registered a 61% growth in profit to AED9.9 million (US$2.69 million) in the first quarter ended the 31st March from AED6.1 million (US$1.66 million) in the same period last year. The firm's underwriting profit also grew by 46% to AED8.7 million (US$2.37 million) from AED6 million (US$1.63 million).

TAKAFUL

Warnings issued

PAKISTAN: The Securities and Exchange Commission of Pakistan (SECP) has passed three orders against an unnamed Takaful firm for not complying with the Insurance Ordinance 2000 and the Companies Ordinance 1984; in addition to 13 warning letters and four show-cause notices issued to several Takaful and conventional insurance firms for breaching provisions of corporate laws, insurance laws and related accounting standards and regulations. The SECP also mandated the Pakistan Insurance Institute to observe insurance surveyors' competence in order to maintain transparency and provide equal opportunities to surveyors.

Advanced discussions

UK: Newly-formed Shariah compliant underwriting company, Cobalt Underwriting, is looking to add more markets to its panel as it expands its offering to other classes of business. The company, which already has XL Group on its panel, is in advanced discussions with other markets.

Ratings boost

GLOBAL: The IDB's Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC) has launched a Takaful product designed to strengthen the credit ratings of Sukuk issuers, beginning with Sukuk Ijarah.

"We are targeting Sukuk Ijarah at the outset. After the pilot phase (two years) we will assess our experience and market response, and then we will determine which other types of Sukuk can be covered by ICIEC," said Bessem Soua, the ICIEC's head of structured finance business, to Reuters. The firm also expects to insure up to US$300 million in the first year and US$600 million in the following year with an option of reinsurance or insuring by tranche for larger issuances.

Level playing field

MALAYSIA: Takaful Malaysia expects revenue flow from its standalone Indonesian arm to increase to 20% from its current 10% once the legislation on sales of Takaful products by standalone Takaful firms is enforced in 2015. Commenting that the competition would be more "equal and fair" after the ruling is enforced, Hassan Kamil, Takaful Malaysia's group managing director, also explained: "Currently, the playing field is not level. A lot of conventional companies operate as a window, so they have a significant advantage compared with us as they use the conventional arm to support the Takaful window, without the need of a separate capital."

RATINGS

Ratings affirmed

QATAR: Fitch has affirmed the ratings of Qatar Islamic Bank at 'A+'/'F1'/'a' and Qatar International Islamic Bank at 'A-'/'F2'/'bb+'. Both institutions have a stable outlook.

Ratings revised

MALAYSIA: RAM has reaffirmed the ratings on Menara ABS's Tranche A1, Tranche A2, Tranche A3, Tranche A4 (collectively known as 'Tranche A Sukuk') and Tranche B Sukuk Ijarah at 'AAA', 'AA2', 'A1', 'A2' and 'AAA', respectively.

The negative outlook on the Tranche A Sukuk has been revised to stable, while the stable outlook on the Tranche B Sukuk is maintained.

Stable outlook

LEBANON: Fitch has affirmed Bank Audi's long-term issuer default rating at 'B' with a stable outlook. Its viability rating has also been affirmed at 'b'.

The affirmation reflects the strong correlation between sovereign and bank risks due to the bank's exposure to substantial government debt as well as the challenging operating environment.

MOVES

Medgulf Allianz Takaful

BAHRAIN: **Shyam Sankar**, the regional head of bancassurance, brokerage and marketing communications at Medgulf Allianz Takaful, has left the company to join another insurance company in the UAE.

Finance minister of Egypt

EGYPT: **Fayyad Abdel Moneim**, a specialist in Islamic economics, has replaced previous finance minister and Islamic finance expert Al Mursi Al Sayed Hegazy in a recent cabinet reshuffle. Fayyad possesses a doctorate in Islamic economy from Al-Azhar University.

Business Bermuda

BERMUDA: **Cheryl Packwood**, CEO of Business Bermuda, has retired after more than six years of service. She will be moving on to work with developing economies.

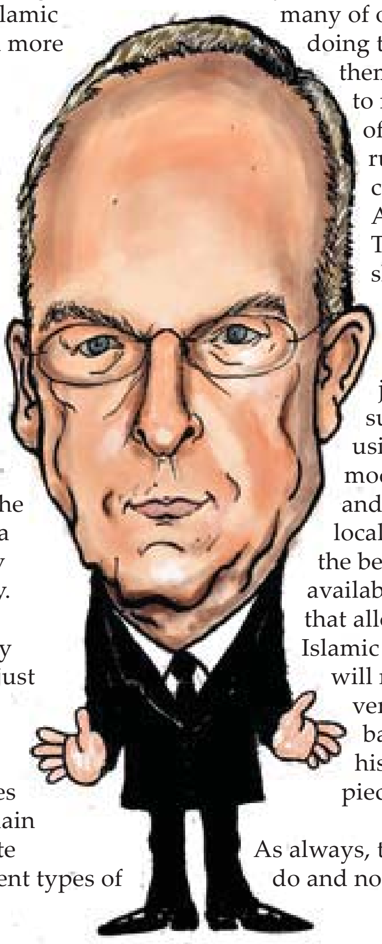
Daud speaks

By Daud Vicary Abdullah

The momentum continues in creating awareness about Islamic finance around the world. In the last four weeks, I have been active in Indonesia, the US, Oman and Malaysia. Many others have also presented at similar events around the world and the message is certainly becoming clearer that: "Islamic finance is good for business!"

I was pleasantly surprised in Jakarta with a growing consensus that the very detailed and robust Malaysian model for Islamic finance infrastructure is indeed the global model. Many Indonesian Islamic finance leaders from both the regulatory and practitioner perspectives were stating: "Why re-invent the wheel", when the Malaysian experience and their willingness to share it with others makes a great deal of sense.

In the US, the eve of the IMF Spring Meeting gave an excellent opportunity for a senior team of experts from the World Bank and INCEIF to give an explanation as to how Islamic finance can play an even more significant role in global economic development, particularly in the areas of risk sharing, capital market development and the development of SME and microfinancing. The seminar was well received; it created a great deal of interaction and was granted even greater credibility by the excellent key note addresses delivered by the governor of Bank Negara Malaysia and the deputy prime minister of Turkey.



Such events, which to my mind were unthinkable just a few short years ago, are now happening on a much more regular basis. Thus opportunities are being created to explain Islamic finance and create awareness to very different types of audiences.

In Oman, Islamic finance is starting to take root and the central bank has developed a very comprehensive regulatory framework in a very short space of time. What particularly attracted my attention during my time at a two-day forum was the level of interactive discussion by participants from all over the world. I am sure this is in part due to the famed hospitality of the Omanis; however, I have a sense that it was also due to the quality of the agenda for discussion. There was certainly a fair amount of 'out of the box' thinking going on when you team IT, education and governance in the same discussion group.

The final point I would like to make in this article, with regard to creating awareness about Islamic finance, is to do with education. As many of you may be aware, I currently run a postgraduate university dedicated to building human capital for the Islamic finance industry. It is therefore expected that our graduates go out and start to make a difference in the industry as quickly as they can. I am certain that a good many of our alumni are already doing that, so kudos to all of them. Last week, it came to my attention that one of their number will be running an awareness-creating event in a north American city in June. This he is doing through sheer determination in a difficult environment where the mention of the "I" word raises just a little more than suspicion. He will be using Malaysia as a role model for Islamic finance and sharing with the local business community the benefits that would be available under a system that allows the availability of Islamic finance. I am sure he will make a difference and I very much hope to report back on the outcome of his event when I write this piece in mid-July.

As always, there is always much to do and not a moment to lose.

SHARIAH PRONOUNCEMENT

DAR AL SHARIA
A subsidiary of Dubai Islamic Bank
www.daralsharia.com

Query:

The Islamic bank has been approached by a client to establish a letter of credit (LC) for the import of goods from another country with a request to finance the import under a Murabahah facility. The LC shall have the following payment terms to the supplier (beneficiary of the LC):

a. Twenty percent of the LC amount to be paid as an advance payment;
b. Forty percent upon arrival of the required documents drawn under the LC, representing shipment of goods;
c. Balance 40% after 60 days from the date of documents arrival.

Can the Islamic bank finance the above transaction by way of Murabahah? If so, will there be separate Murabahah agreements signed with the client for each stage of payment? Also, how shall the multiple payments to the supplier be treated when it comes to calculating Murabahah profit?

Pronouncement:

It is permissible under Shariah to establish the LC having different dates of payment to the supplier and to sell the LC goods to the customer on a Murabahah basis, even though the payment to the supplier will be made in parts. However, the following points should be considered for the execution of this transaction:

I. The bank must sign only one Murabahah agreement with the client irrespective of the number of payments to the supplier;

II. The Murabahah agreement must be signed at the time of handing over the goods to the client represented by the documents drawn under the LC including the commercial invoice which represents the title and the bill of lading (or the airway bill) which denotes possession;

III. The Murabahah agreement must incorporate complete details, including quantity and description of goods, the bank's profit added to its cost and the payment date;

IV. The Murabahah agreement must not be signed upon effecting the advance payment under the LC and must also not be postponed till the final payment to the supplier is made (which is after 60 days from the date of arrival of LC documents). This is because the Murabahah agreement represents an independent transaction between the bank and client and has no bearing on payment terms agreed by the bank with the supplier.

V. In the process of calculation of Murabahah profit, the bank may consider different amounts and dates of payment to the supplier and may agree with the client any amount of profit based on any measure or index used in arriving the same subject however, that amount shall be added to the bank's cost of purchasing the goods from the supplier in order to complete the Murabahah amount which is a fixed price sale contract. AAOIFI Shariah Standard No. 8, article 4/7 is clear in this respect: stating that the bank's profit must be known and it is permissible that the profit be determined based on a lump sum amount or a certain percentage of the cost price plus the direct expenses if any. The determination of the profit is completed by the agreement and mutual consent of the two parties.

Dr Hussain Hamed Hassan
Shariah scholar & managing director
Dar Al Sharia Legal & Financial Consultancy

This Fatwa is brought to you exclusively by IFN in collaboration with Dar Al Sharia Legal & Financial Consultancy-Dubai. The Fatwa appearing in this space are those which were obtained by Dar Al Sharia for their client institutions and depict issues faced. This Fatwa was compiled by Dr Muhiuddin Ghazi.

UK's first Shariah compliant underwriting agency aims to address Sukuk gap

In a move that is seen as a first in the industry, a new Shariah compliant underwriting agency has been launched to provide Shariah compliant insurance and reinsurance products to businesses worldwide. Cobalt Underwriting, in collaboration with insurance company XL Group, has secured underwriting capacity for property risk out of London.

The initial focus of the product will be on property cover, with a maximum capacity of up to US$300 million. According to CEO Richard Bishop, Cobalt is not merely about providing Islamic insurance in the UK, however, but about addressing the global needs of large corporate buyers worldwide.

"We have developed, in conjunction with the Islamic scholars, a unique model that replicates the London subscription market in a Shariah compliant way," he adds. When asked if more companies of such nature would eventually enter the market, Bishop warned that it may take a while before this happens as they are also in the process of adding more markets to their panel.

When questioned on the importance of insurance against property risks, Bishop agreed that insurance was the only way to do it, whether Shariah compliant or otherwise. He further reiterated that insurance purchase in the west is higher than the rest of the world, but having a secure and well-rated insurance industry was equally as important.

Cobalt's aim is to transform the existing investor base for the global Sukuk market, where currently there are very few investors requiring Shariah compliant products. It is hoped that by introducing global insurance companies to the Islamic finance sector, the Sukuk market will benefit from the need for Shariah compliant insurance premiums. — *SL*

Kuwait moves forward

The State of Kuwait recently passed an amendment resolving several company laws in the country. Previously, the country only had the Capital Markets Law, which only regulated persons licensed under the Capital Markets Authority operating in accordance with Shariah principles.

Recognizing the need for similar regulations to cater to all Shariah compliant companies for the progression of Kuwait's business environment, the Companies Law was amended to incorporate provisions relating to the operations and establishment of Shariah compliant companies, as well as issuing Sukuk according to company objectives. The legislation also requires Shariah compliant companies to set up an independent committee ensuring supervision over company operations.

Speaking to Islamic Finance *news*, the Kuwait office of Al Tamimi & Company, which operates through a joint venture with local law firm Yaqoub Al Munayae, expressed its optimism that the amendment would significantly reduce the obstacles and hurdles faced by businesses and investors, in addition to removing uncertainties that previously existed. The Companies Law is a uniform set of laws that has been highly anticipated and well received as a major piece of reform that will benefit Kuwait.

Article 3 of the Companies Law states that the Ministry of Commerce and Industry will issue the Executive Bylaws to clarify and set forth certain requirements necessary for the enforcement of the Companies Law. The recent amendments to the Companies Law, however, add that these Executive Bylaws are to be issued within six months from its effective date (Article 2). The ministry is expected to issue the Executive Bylaws some time this year. — *NA*

North Africa catches up with the world

Following the Arab Spring revolution, North African countries such as Egypt, Libya and Tunisia have displayed signs of steady growth. This is expected to stimulate companies in the North African region to raise Islamic debt to boost the Shariah compliant finance industry. As it is, efforts have already been initiated in sync with the growing appetite for Islamic finance around the globe.

In the absence of a law governing Sukuk, the Tunisian government will soon enact legislation to enable issuance, further to its goal of becoming a regional center for Islamic finance. Speaking to Islamic Finance *news*, a source stated that the Tunisian government is working alongside the IDB for a TND1 billion (US$596.26 million) Sukuk sale which would set a benchmark for companies seeking to tap the Islamic debt markets. The country's keenness to tap into the market is partly driven by the low cost of borrowing caused by the high demand.

Although tainted with political complications, Libya still manages to attract financial institutions from countries such as Bahrain and Qatar. Al Baraka, Bahrain's Islamic lender, is contemplating the purchase of a conventional Libyan bank and converting it into an Islamic financial institution. The Libyan central bank governor expects Libya to start implementing its new Islamic banking law by the end of the year and foresees strong public demand following the fall of Muammar Gaddafi. The country has seen promising growth since the passing of its new Islamic banking laws. — *NA*

Investor education urgently needed for Islamic funds

Widely acknowledged as an underserved segment of the market, industry experts are calling for more investor education to remedy the lack of supply in the Islamic asset management industry.

"We think there is a demand, but more investor education is needed to debunk certain myths or misconceptions about Islamic finance. As long as investors understand that Islamic funds are not necessarily more expensive or perform less than conventional funds, we think Islamic funds could do well," says Ramlie Kamsara, CEO of CIMB-Principal Islamic Asset Management.

Citing home country bias as the reason for the industry's imbalance in demand and supply, Monem Salam, the director and vice-president of Saturna Capital, explains that: "If you come up with a core strategy for a country and stick to those core funds, and really educate the investors on why it is important to invest there; then you don't have to come up with the flavor of the month."

Besides the lack of investor education, Monem also notes the exorbitant fees involved as a factor behind the low market penetration, while Ramlie adds that scale is another issue as it is challenging to get a fund off the ground without a long track record and large assets under management.

In coping with the issue of scale, Ramlie says: "Our strategy is to target smaller and niche distributors, Takaful companies, family offices and private banks — and as the fund sizes increase, we hope it would be easier to solicit interest from larger distributors and institutional investors."

For the quarter ended the 31st March, CIMB-Principal's Islamic ASEAN equity fund returned 8.22% against the benchmark return of 6.83% while its Islamic Asia-Pacific ex-Japan Fund underperformed with a return of -1.99% against the benchmark return of -1.76%. AmInvest's AmASEAN Equity Fund also underperformed with an 8.26% return against the benchmark return of 12.16% for the year ended the 31st March 2013. — *VT*

Eyeing Egypt

Following the successful passing of legislation allowing the issuance of corporate and sovereign Sukuk, what is the outlook for the Islamic capital market in Egypt? Walid Hegazy, the managing partner of Hegazy & Associates, is positive on the prospects for the sector.

"The Sukuk unit has created a list of the roughly 30 projects that will be established using Sukuk, which are expected to take place in June. One of the first will be the Ain Shams train project, worth EGP4.5 billion (US$644.55 million) in investments, and another will establish a flour mill at Suama. The government has also made public its plans for a sanitation plant at Abu Rawash, worth EGP5.5 billion (US$787.79 million), and developments of Safaga Port worth EGP6 billion (US$859.4 million)," he said.

Sovereign Sukuk are expected to attract US$15 billion in investments to Egypt annually, from both foreign and domestic investors. According to Professor Dr Shahinaz Rashad, the executive director of Metropolitan Training Academy and Metropolitan Consulting, about 10 banks pitched for involvement in the country's upcoming Sukuk issuance. These include Abu Dhabi Islamic Bank, Banque Misr, Banque Du Caire, National Bank of Egypt, HSBC, CitiGroup, Faisal Islamic Bank, Al Baraka Bank, The United Bank (Egypt), and Egypt's National Societe Generale Bank.

The Metropolitan Group is seeking to provide financial advice on the issuance whilst the legal advisory team is said to comprise of Hegazy & Associates, Clifford Chance, Norton Rose and Trowers & Hamlins. The IDB is also expected to market and participate in the sovereign Sukuk issuance.

Taking the Egyptian financial landscape into consideration, Walid suggests a reformation of Zakat, Waqf and endowment laws to revive the country's strength. Shahinaz on the other hand, pointed out a future in public private partnerships and leasing in infrastructure as well as the utilities and energy sector. Egypt's overall aim is to lure capital from previously untapped sources and Shariah compliant customers in an attempt to close a budget deficit estimated to reach EGP200 billion (US$28.64 billion) at the end of 2013. The country's biggest challenge will be to continue to finesse regulations and ensure the necessary standardization required. — *NA*

Insurance sector in the UAE bullish, say AM Best

Ratings agency AM Best predicts the insurance sector in the UAE to experience continued growth despite mixed reports on the region's economic recovery, mainly due to a reduction in oil output. Competition in a fragmented and increasingly competitive market, a lack of regulations and an uncertain investment environment could contribute to sluggish growth in the sector, but continued public spending and government investments could act as a buffer in driving local demand for insurance and Takaful.

Mahesh Mistry, the director of analytics at AM Best, said: "In recent years, the UAE has benefited materially from oil revenues stimulating economic growth, which in turn has enabled spending on infrastructure. Furthermore, the insurance sector has been buoyed by the introduction of compulsory medical schemes in Abu Dhabi."

The rating agency expects the UAE Takaful sector to benefit from the government's efforts to increase its participation in the global Islamic finance scene, stating: "Any development in Islamic finance may filter into the insurance sector, with Takaful operators likely to benefit from the increasing opportunities for premium growth and greater diversity in Islamic finance instruments." — *NH*

Dana Gas Sukuk restructuring: The first of its kind

The largest independent oil operator in the UAE, Dana Gas, has successfully executed a restructuring of its US$1 billion Sukuk Mudarabah trust certificates, after protracted discussions spanning over three months since March.

The holders of the US$920 million Sukuk which defaulted in October last year agreed to a restructuring exercise which saw US$850 million in Shariah compliant trust certificates being split into two equal amounts of US$425.04 million and issued via exchangeable and ordinary certificates. According to earlier reports, Dana Gas had chosen to pay the remaining US$70 million in cash.

Nomaan Raja, an associate at the London and Dubai offices of Latham & Watkins, one of the deal's advisors, elucidated that the consensual basis of the restructuring and the non-involvement of any courts was what set the deal apart from any other debt restructuring exercises in the Middle East. "The restructuring exercise involved the launch of an exchange offer for the existing Sukuk with two new Sukuk. There was no court involvement as this was a consensual restructuring, which entailed a consensual transfer and exchange offer, and was agreed upon by the Sukukholders. This has never been done before ," he said.

The shareholders of Dana Gas and the holders of the existing Sukuk had approved the restructuring by a resounding vote.

The deal's lawyers said: "The restructuring of Dana Gas' Sukuk was closely watched by market participants as the first consensual restructuring of a Sukuk implemented in this manner, and it is particularly relevant to the Middle East market given the number of liabilities of a diverse variety of issuers that are expected to fall due in the near future."

In terms of the challenges faced when executing the first such deal in the Middle East, Nomaan admitted that the procedure was incredibly complex, as it involved a committee of Sukukholders to negotiate with, as well as a commercial agreement that had to be met with the Sukukholders, who represented the majority of the Sukuk. "It took a while, because it was a very involved and complex negotiation. Also, whenever you do a restructuring, the entire structure has to be Shariah compliant. Therefore, the restructuring had to take into account the changes in AAOIFI rulings and Shariah scholar rulings, he explained.

> ***"There was no court involvement as this was a consensual restructuring. This has never been done before"***

The defaulted Sukuk, which was structured as 144A, was not originally intended for US investors, and was marketed outside the US. However, by the time the Sukuk hit its maturity, a large portion of the original Sukuk was held by US investors. "Whenever you have US investors, the US securities laws apply, so that was also slightly more complicated."

Although Dana Gas has gained infamy as the "embattled" gas producer, the structurers of the Sukuk maintain that the Sukukholders are convinced of the company's long-term prospects. Nomaan said: "Of course, the Sukukholders needed a certain level of convincing, but they saw excellent long-term prospects in the company."

In March this year, the company announced that it had invested over US$1 billion in gas operations in Kurdistan alongside Crescent Petroleum. As most of the company's assets were previously concentrated in Egypt, which was the main reason for its downfall following the Arab Spring; it is hoped that its new ventures exhibit positive results. — *NH*

Dana Gas

Restructuring of Dana Gas' US$1 billion Trust Certificates due 2012

US$850.08 million

8th May 2013

Issuer/ Trustee	Dana Gas Sukuk
Obligor	Dana Gas
Issuance Price	• US$425.04 million Exchangeable Certificates • US$425.04 million Ordinary Certificates
Purpose of issuance	Restructuring of existing US$1 billion Trust Certificates due 2012
Delegate	Deutsche Trustee Company
Tenor	Five years (commencing from the 31st October 2012)
Coupon rate / return	• Exchangeable Certificates 7% per annum • Ordinary Certificates 9% per annum
Payment	31st January, 30th April, 31st July and 31st October in each year commencing on the 31st July 2013
Currency	US dollars
Maturity date	31st October 2017
Governing Law	English
Legal Advisor(s) / Counsel	Latham & Watkins Allen & Overy
Listing	Irish Stock Exchange (Global Exchange Market)
Underlying Assets	Portfolio of Mudarabah assets
Shariah Advisor(s)	Dar Al Sharia Legal & Financial Consultancy

Increasing profits help Qatar prepare for large-scale projects

QATAR

By Amjad Hussain

Many banks in Qatar are now enjoying strong government support and steady loan growth in their home market. This comfort is pushing conventional and Islamic banks to expand by acquiring stakes in other lenders across the region and around the globe.

Masraf Al Rayan registered a 13.3% year-on-year increase in net profit for the first quarter of 2013 at QAR400 million (US$109.87 million). The Islamic bank is now in the final stages of due diligence to acquire a stake in a Libyan lender. Masraf Al Rayan is also in the advanced stages of meeting the requirements for the acquisition of UK-based Islamic Bank of Britain (IBB).

Qatar International Islamic Bank (QIIB), which has been in discussions since last June with Masraf Al Rayan to sell a controlling stake in IBB, has raised US$15.37 million to narrow the loss gap for IBB. IBB was able to raise the amount by placing 1 billion shares with QIIB at a price of 1 penny each, raising the number of its outstanding ordinary shares to 4.5 billion. QIIB now owns 91% of IBB.

Qatar Islamic Bank (QIB) has introduced a new flagship product, the International Sukuk Portfolio. The product will be managed by QIB's UK-based subsidiary, QIB (UK) and will invest primarily in the global Sukuk market, excluding Qatar. QIB's total income for the first quarter of 2013 was QAR724 million (US$198.87 million), representing a growth of 12% compared to the last quarter in 2012.

The Qatar Central Bank has announced that it will issue up to QAR1 billion (US$274.68 million)-worth of Sukuk and up to QAR3 billion (US$824.06 million)-worth of conventional bonds every quarter. This is intended to support the local market and ensure liquidity as the country ramps up.

Barwa Bank has confirmed that it plans to raise QAR2.05 billion (US$563.1 million) through two share sales. The Islamic lender will issue 50 million shares at QAR21 (US$5.76) per share through an initial public offering.

Barwa Bank seems to be on solid ground, having reported a 53% rise in net profits to QAR156.7 million (US$43.04 million) in the first quarter of this year. The Islamic bank is hoping to participate in Qatar's planned rail scheme as part of an Islamic banking consortium looking at the opportunity. Qatar has more than US$45 billion-worth of projects planned this year and up to US$200 billion-worth of projects planned for the upcoming years.

The Qatar Islamic Insurance Company is warning about the influx of foreign insurers with the growing number of projects in Qatar. There are currently five Islamic insurance companies in Qatar and about the same number of conventional insurers. Foreign companies and brokers offering insurance services are creating competition in Qatar that many deem to be healthy for the current growing market.

Analysts suggest that this competition will protect the interests of companies and provide options for consumers rather than allow for a monopoly. Following the introduction of the new Qatar Central Bank law at the end last year, it is clear that the insurance sector is going to be the focus of regulatory and government attention going forth.

Despite having obtained approvals in all other markets in which their joint venture was to operate, EFG Hermes, one of the leading investment banks in the Arab world; and QInvest, Qatar's leading investment bank, have confirmed the expiration of their agreement. The regulatory approvals required to satisfy the conditions precedents from the Egyptian Financial Supervisory Authority have run past the long-stop date and the transaction is now not proceeding.

Amjad Hussain is a partner at law firm K&L Gates' corporate and finance practices. He can be contacted at Amjad.Hussain@klgates.com.

IFN Country Correspondents

AFGHANISTAN: Zulfiqar Ali Khan
head of Islamic banking division, financial supervision department, Da Afghanistan Bank
AFRICA
Afzal Seedat, managing director, Islamic banking, Absa
AUSTRALIA
Talal Yassine, managing director, Crescent Wealth
BAHRAIN: Dr Hatim El-Tahir
director, Islamic Finance Knowledge Centre, Deloitte & Touche
BANGLADESH: Md Shamsuzzaman
executive vice president, Islami Bank Bangladesh
BELGIUM: Prof Laurent Marliere
CEO, ISFIN
BERMUDA: Belaid A Jheengoor
director of asset management, PwC
BRUNEI: James Chiew Siew Hua
senior partner, Abrahams Davidson & Co
CANADA: Jeffrey S Graham
partner, Borden Ladner Gervais
CZECH REPUBLIC: JUDr Ivana Hrdlickova,
judge, Judiciary, Appelate Court Pardubice
EGYPT: Dr Walid Hegazy
managing partner, Hegazy & Associates
FRANCE: Kader Merbouh
co head of the Executive Master of the Islamic Finance, Paris-Dauphine University
HONG KONG & CHINA: Anthony Chan
partner, Brandt Chan & Partners in association with SNR Denton
INDIA: H Jayesh
founder partner, Juris Corp
INDONESIA: Farouk A Alwyni
chairman, Center for Islamic Studies in Finance, Economics, and Development
IRAN: Majid Pireh
Islamic finance expert, SEO
IRAQ: Khaled Saqqaf
partner and head of Jordan & Iraq offices, Al Tamimi & Co
IRELAND: Ken Owens
Shariah funds assurance partner, PwC Ireland
JAPAN: Serdar A. Basara
president, Japan Islamic Finance
JORDAN: Khaled Saqqaf
partner and head of Jordan & Iraq offices, Al Tamimi & Co
KOREA: Yong-Jae Chang
partner, Lee & Ko
KUWAIT: Alex Saleh
partner, Al Tamimi & Company
LUXEMBOURG: Marc Theisen
partner, Theisen Law
MALDIVES: Aishath Muneeza
head of Islamic finance, Capital Market Development Authority
MALTA: Reuben Buttigieg
president, Malta Institute of Management
MAURITIUS: Sameer K Tegally
associate, Conyers Dill & Pearman
MOROCCO
Mohamed Boulif, principal consultant, Al Maali Islamic Finance Training and Consultancy
NEW ZEALAND: Dr Mustafa Farouk
counsel member for Islamic financial institutions, FIANZ
NIGERIA: Auwalu Ado
Shariah auditor, Jaiz Bank
OMAN: Anthony Watson
senior associate, Al Busaidy Mansoor Jamal & Co
PAKISTAN: Bilal Rasul
director (enforcement), SEC of Pakistan
PHILIPPINES: Rafael A Morales
managing partner, SyCip Salazar Hernandez & Gatmaitan
QATAR: Amjad Hussain
partner, K&L Gates
RUSSIA: Roustam Vakhitov
managing partner, International Tax Associates
SAUDI ARABIA: Nabil Issa
partner, King & Spalding
SENEGAL: Abdoulaye Mbow
Islamic finance advisor, Africa Islamic Finance Corporation
SOUTH AFRICA: Amman Muhammad
CEO, First National Bank - Islamic Finance
SINGAPORE: Yeo Wico,
partner, Allen & Gledhill
SRI LANKA: Roshan Madewala
director/CEO, Research Intelligence Unit
SWITZERLAND: Khadra Abdullahi
associate of investment banking, Faisal Private Bank
TANZANIA: Khalfan Abdallah
head of product development and Sharia compliance, Amana Bank
TUNISIA: Karim Amous
Managing partner, Smarteco
TURKEY: Ali Ceylan
partner, Baspinar & Partners
UAE: Moinuddin Malim
CEO, Mashreq Al Islami
UK: Siraj Ibrahim
corporate finance manager, QIB UK
US: Saeid Hamedanchi, CEO, ShariahShares
YEMEN: Moneer Saif
head of Islamic banking, CAC Bank

IFN Correspondents are experts in their respective fields and are selected by Islamic Finance *news* to contribute designated short country reports. For more information about becoming an IFN Correspondent please contact sasikala@redmoneygroup.com

India's Shariah indices: A step towards financial inclusion

INDIA

By Detty Davis

The Bombay Stock Exchange of India (BSE) is Asia's oldest bourse and is one of the nationalized stock exchanges in India, the other being the National Stock Exchange. The BSE over the last couple of years has taken tangible steps towards providing Shariah compliant investment options for retail investors interested in accessing the Indian capital markets.

In January 2008, the BSE in collaboration with Taqwaa Advisory and Shariah Investment Solutions, a Shariah advisory institution based in India, launched India's first Shariah index. The BSE-TASIS Shariah 50 Index includes the top 50 Shariah compliant companies in India. Reports state that the index has outperformed the 30-share sensitive index (Sensex) and the BSE-500 Index.

On the 2nd May 2013, the BSE in collaboration with S&P Dow Jones Indices launched the S&P BSE-500 Shariah Index, a broad-based index in India representing all Shariah compliant stocks of the broad-based S&P BSE-500 Index.

S&P Dow Jones Indices has entered into a tie-up with Ratings Intelligence Partners (London and Kuwait-based Shariah consultants) for Shariah vetting and analysis. The companies firstly undergo a sector based screening (typically to see if the business activities of the company are Shariah compliant). After removing companies with non-Shariah compliant business activities, the rest of the companies are examined for compliance in financial ratios. Three areas of focus are leverage, cash and the share of revenues derived from non-compliant activities. The stocks of both indices are periodically vetted and any stock that becomes non-Shariah compliant is subsequently removed from the index.

S&P's global presence and existing variety of Islamic indices will no doubt bring much-needed experience to the table, thus boosting investor confidence as well. The attractiveness of these Shariah indices is further accentuated by the large number of Shariah compliant stocks that are traded on the BSE.

The status of the Indian economy and performance of the markets in India also adds to the huge potential of the BSE to attract investors. Statistics state that the BSE had a market capitalization of US$1.2 trillion from over 5,100 listed stocks in 2012-13.

The BSE's efforts towards promotion of financial inclusion in the country is commendable, more so given that the nation has the second-largest Muslim population in the world. The indices also provide an opportunity for offshore funds that are looking to invest in the Indian economy in a Shariah compliant manner.

Detty Davis is a partner at Juris Corp. She can be contacted d.davis@jclex.com.

Capital Market Shariah Advisory Committee renamed

MALDIVES

By Aishath Muneeza

The Capital Market Development Authority (CMDA) is the regulator for the capital markets in the Maldives. In May 2011, the CMDA took the initiative to develop a fully-fledged Islamic capital market in the Maldives and the first step towards this vision was to establish a Capital Market Shariah Advisory Committee (CMSAC).

Established on the 5th May 2011, the CMSAC was renamed the Capital Market Shariah Advisory Council two years later on the 5th May 2013. The main reason for this change was due to the existing trend in the country's nascent Islamic finance industry; that is Shariah advisory committees are mainly established in Islamic financial institutions. To make a clear distinction between these Shariah advisory bodies and the overseeing authority, it became imperative to rename the CMSAC as a 'Council' rather than a 'Committee'.

The main responsibility of the Council is to advice the CMDA board of directors on Islamic capital market issues including conducting Islamic equity screening and giving approvals to Sukuk structures.

Recently, CMSAC advised the CMDA on developing an Islamic equity screening methodology and on the structure of the Maldives' first corporate Sukuk, which has since been approved.

Moving forward, it is hoped in the near future that the provisions of the Maldives Securities Act 2/2006 will be amended to incorporate the functions of CMSAC. This way, CMSAC will be a body statutorily accepted and its functions will become statutorily recognized.

Aishath Muneeza is the head of Islamic finance at the Capital Market Development Authority. She can be contacted at muneeza@cmda.gov.mv.

Fair and equitable treatment of Islamic investments in Qatar

Fairness and equity as a concept is embedded in Islamic law with roots both in western civil law and in Islamic tradition. DR ARDESHIR ATAI explains the concept and traces its foundation and applicability with reference to the Qatar Civil Code.

The concept of a 'fair and equitable treatment' standard is recognized as the principle of international investment law. The core components of the fair and equity principle include: a) protection of the investor's legitimate expectation, b) consistency and transparency, c) stability and predictability, d) freedom from coercion and harassment, e) procedural propriety and due process, f) honoring contractual obligations and, g) good faith.

The application of the fair and equity standard is the underlying theme behind the doctrine of rule of law which is the cornerstone of a fully-functioning market economy. Strengthening the rule of law practice promotes capital investments and restores investor confidence by reducing costs and risks relating to market transactions.

The rule of law apparatus creates a level playing field in which economic actors can engage in commercial transactions for the exchange of goods and services. A rule-bound legal system provides a mechanism for the enforcement of contractual and property rights and guarantees compensation for financial losses incurred by an investor as a result of breach of contractual obligations by the counter party. Therefore 'sanctity of contract' (also known as 'pacta sunt servanda' in western legal terminology) is the cornerstone of liberal market economies.

The Quran contains a long list of references to commerce including: contracts, the necessity of their certainty, the central importance of ethics, the strict requirements of honoring contractual obligations, of putting them in writing, the importance of trade and the prohibition against Riba (interest, usury). In most Muslim countries, Islamic law is the main source of law. In the Middle East, the rule of law is effective in civil law, which offers a measure of legal stability in terms of developing comprehensive codes concerning rights and obligations of parties arising under a contract.

> ***"A rule-bound legal system provides a mechanism for the enforcement of contractual and property rights and guarantees compensation for financial losses incurred by an investor as a result of breach of contractual obligations by the counter party"***

A case in point is Qatari Law No.22 regarding 'Promulgating the Civil Code,' which came into force in September 2004. The Qatari Civil Code is based on principles of Shariah law, therefore reference should be made to rules of Islamic law when interpreting and applying the provisions of the civil law. The Qatari Constitution in Article 1 states that Shariah law is the principal source of legislation. Under the Qatari Civil Code, the contract is considered as the main source of obligations. Paragraph 1 of Article 171 states that: "Contract is the law binding to its parties. Such contract may not be revoked or amended without mutual agreement by the parties or for such reasons as provided by law." Therefore, Qatari law recognizes the concept of 'freedom of contract' or ''free will of parties', meaning that the provisions of contract govern the contractual relationship between the parties.

The concept of party autonomy has its roots in the 'lex mercatoria' (law merchant) which emphasized freedom of contract and freedom of alienability of movable property. The lex mercatoria was an international law of commerce which derived its authority from voluntary acceptance by merchants whose conduct it sought to regulate. The lex mercatoria imposes a duty of good faith and fair dealing which is reflected in the Qatari Civil Code. Paragraph 1 of Article 172 stipulates that: "A contract shall be performed in accordance with its provisions and in such manner consistent with the requirements of 'bona fide'." Therefore, the parties should act in good faith when performing their obligations.

However, the obligation to treat fairly and equitably is not limited to the provision of contract and other sources including custom and usage, may become applicable in commercial dealings. Paragraph 2 of Article 172 of the Qatari Civil Code states that: "A contract shall not be limited to binding a party to perform its obligations thereunder, but it shall also deal with its requirements by law, by practice and by justice according to the nature of the obligation."

The requirements of justice refer to the concept of due process of law including procedural fairness and administrative justice, which are the subset of the fair and equitable treatment standard and universally accepted as rules of custom. Article 38 of the Statute of the International Court of Justice (ICJ),

continued...

Continued

whose function is to decide disputes between member states of the UN in accordance with international law, recognizes 'international custom' (evidence of a general practice accepted as law) as a source of law.

Islamic law recognizes the concept of La Zarar (its contents are extracted from a Hadith concerning Samurah ibn Jundub) which, as a general rule, applies to all legal and contractual relationships. The concept of La Zarar articulates that Islam prohibits behavior or conduct which causes loss or damage.

The principle of La Zarar may become relevant in a claim arising out of Islamic investment contracts as international courts and arbitral tribunals follow the practice and procedure of the ICJ when determining the applicable rules of law. Trade custom under Islamic law include: Adat al-Tujjar (the use of merchants and their practice), Taamul al-Nas (the way people deal amongst themselves), Taaruf-Bayn al-Nas (the interaction between people) and the notion of Wajh al-Tijara (direction of commerce).

> **"*Strengthening the rule of law practice promotes capital investments and restores investor confidence by reducing costs and risks relating to market transactions*"**

In conclusion, Islamic investment is characterized by the notion of profit and loss sharing and equal treatment. The Islamic law merchant is founded on the European civil law system which is characterized by party autonomy, predictability, flexibility and good faith. In addition to the role of the Shariah boards in financial institutions, which is to oversee and approve the structure and terms of individual contracts such as Mudarabah investment or project finance, the concept of fairness and equity operates (ex ante and ex post) to maintain equilibrium and balance injustices in contractual relationships. In case one party's conduct and behaviour is inconsistent with the standard of good faith and fair dealing, the other party can invoke the provisions of Qatar Civil Code to seek redress against the defaulting party.

Dr Ardeshir Atai is the head of international arbitration practice at Atai & Associates. He can be contacted at ardeshir.atai@ataiassociates.com.

Cloud computing for Islamic banking

As the demand for Islamic banking services grows globally, spending on technology infrastructure will inevitably increase. ROY SHELTON takes a look at the most important technology areas banks should be investing in to get the most out of their systems.

According to reports for the GCC countries (Bahrain, Qatar, the UAE, Kuwait and Saudi Arabia), IT spending totalled US$400 million in 2013 and is set to grow significantly over the coming years.

Islamic banking services have gained in popularity and are now distributed across both Muslim and non-Muslim countries, with many conventional banks actively offering Islamic banking products to their customers.

A healthy upsurge in the affluent population across Arab countries and the presence of Islamic banking in local economies will encourage demand for Islamic banking services. All these industry developments will certainly increase the penetration of Islamic banking services across the region and will simultaneously place a strain on IT infrastructure, thus driving further investment in technology.

With the anticipated rise of banks services, financial systems need a fast and secure network to ensure data is protected and cannot be manipulated. The loss or interruption (even late delivery of financial and regulatory reporting data) could have a shattering effect on the banking sector as personal details are used in subscription/identity theft, arbitrage of trading stocks (due to time delays in sending reporting or trading data) — all of which could leave a bank significantly unprotected financially, could damage brand value and consumer trust and even open to regulatory issues.

Sub-three-millisecond latency on a secure fiber optical network is the uppermost level of high speed robust transmission of data available — let's face it, nothing will get there quicker than the speed of light. When suppressed in the ground up to 3m deep, in a reinforced duct with a Kevlar sleeve; the fiber network is also very secure from the hackers, so they are forced to find alternative entry points to the network, which have the least amount of resistance such as switches and routes — for which we again have robust counter measures.

The major technology investment areas for Islamic banks will center on the drive to optimize current infrastructure through the implementation and adoption of cutting-edge network infrastructure, software and IT services. This investment will drive efficiencies, allow more services to be offered and provide a real-time trading and banking services environment.

"The major technology investment areas for Islamic banks will center on the drive to optimize current infrastructure through the implementation and adoption of cutting-edge network infrastructure, software and IT services"

Cloud computing isn't just about working from a laptop or desktop — tablets and mobile phones are also driving the cloud adoption. There are now 6 billion live mobile phone subscriptions worldwide, so with only 6.97 billion people making up the global population, there is nothing else that really enjoys the same level of adoption. With the emergence of fourth generation or LTE networks for fast data download, this is going to increase even further.

All of this progression in cloud computing in the industry (including the financial services sector) generates a healthy ecosystem, yet it is all pointless unless you can connect to it in a robust, fast and cost effective manner.

It is very important to have these factors in place to support the rise and presence of Islamic banking on a global basis.

Roy Shelton is the group CEO of ITS Technology Group. He can be contacted at roy.shelton@itstechnologygroup.com.

The top strategic technology trends for 2013

DAVID CEARLEY and CARL CLAUNCH of Gartner Research analyze the top strategic technology trends that have the potential to affect individuals, businesses and IT organizations. This year's list reflects the increasing impact of the 'Nexus of Forces': mobile, social, cloud and information.

Many specific technologies may be associated with a particular strategic technology trend. These may be technologies that have matured and/or become suitable for a wider range of uses. In the case of a mainstream technology, the strategic decision is likely to revolve around product/vendor selection and the degree to which it is incorporated into the broad IT environment.

A technology may also be an emerging one that offers an opportunity for strategic business advantage for early adopters or has the potential for significant market disruption during the next five years. For emerging technologies, the strategic decision may be to request funding for evaluation.

> *"When properly exploited, a disruptive shift can be used to deliver value to the organization. For example, the shift to cloud computing is disruptive, but it creates an opportunity to leverage the cloud to drive business innovation"*

Companies should factor these technologies into their strategic planning processes by asking key questions and making deliberate decisions about them during the next two years. Sometimes, the decision will be to do nothing with a particular technology. In other cases, it will be to continue investing in the technology at the current rate. In other cases, the decision may be to test/pilot or more aggressively adopt/deploy the technology. Gartner recommends that IT organizations, particularly in rapidly changing industries, formalize the technology research function to track emerging and strategic trends.

As many conventional businesses search for ways to boost revenue, some may turn to Islamic product offerings that have the potential to contribute significantly to their business growth strategy. Chief information officers need to be ready to deliver an informed technology assessment of this new market opportunity.

Ultimately, the reason for examining trends such as these is to understand their potential impact on the enterprise even when considering Islamic IT solutions. Information officers and IT strategy leaders should recognize that the impact can be positive or negative and they must examine the potential threats or risks associated with the trend. In particular, one must examine the implications of ignoring the potential impact of a trend or the potential for a competitor to exploit a trend to change the competitive landscape.

Impact can be examined in many ways. A useful first step is to consider influences on individual human beings, the business or the IT department. Each trend can and should be examined in light of all three dimensions, but there will often be a primary impact point.

The human experience

How will the trend affect individual employees, customers or people working for a business partner? With the shift toward the individual, consumers are becoming more interested in, knowledgeable about and dependent on technology; and this experience becomes ever more important. The need for the enterprise to consider not only employees, but individuals as business partners and their customers as technology consumers, further expands this need.

Five of the top 10 trends have a direct and significant impact on the human experience:

- Mobile tablets and beyond.
- Mobile applications and interfaces.
- Contextual and social interfaces.
- The Internet of Things.
- App stores and marketplaces.

By 2016, these trends will combine in a client computing world in which individuals use technology on a more continual, fluid, natural, dynamic and often-invisible basis. Computing becomes a feature of the environment around us and referencing electronic information sources or directing the nebulous 'computer in the cloud' becomes a natural part of an individual's daily activity, rather than a unique and separate activity he or she performs.

The business experience

Another impact area to be considered is the business experience i.e. the extent to which initiatives based on the trend affect business operations. Companies should explore opportunities to reduce expenses by improving operational efficiency; increase revenue and/or profitability by enabling new business models, supporting the delivery of new products or services, or otherwise changing business operations. Don't ignore the organizational implications in terms of a trend's impact on organizational structures, particular roles and responsibilities, or new skills or business processes needed.

A number of the trends on the 2013 list have a direct impact on the business experience. These include:

- Mobile applications and interfaces.
- Contextual and social user experience.

continued...

Continued

- The Internet of Things.
- App stores and marketplaces.
- Next-generation analytics.
- Big data.

As a starting point, the changes in the human experience create enormous opportunities, as well as business challenges for the enterprise. It is not simply about additional mobile devices, but is especially rooted in the expanded interfaces and consumer-focused applications, as well as the extension of the supply chain into the real world, which Gartner calls the digital supply chain.

Another major impact on the business itself is the use of advanced analytics to analyze patterns and make more timely, informed and insightful decisions. These decisions are based on analyzing an expanded set of data (including market information from mobile consumers and the Internet of Things) in a social/collaborative environment that brings decision-makers together enterprise wide.

The IT experience

Although the impact on the business and individuals (employees or customers) is arguably the most important thing to focus on, the impact on the IT organization and the technologies it manages is also significant. In some cases, a trend may have a positive impact on the human experience (e.g., advanced natural user interfaces with total choice of mobile device), but a correspondingly negative impact on the IT experience (e.g., heterogeneity and change driving up management costs and increasing skill requirements).

Understanding these tradeoffs and clearly communicating them to decision-makers is critical. In other cases, the impact may be more directly seen by IT and only indirectly seen by the business or individual users.

A number of trends on the top 10 list fit largely into this category:

- Big data.
- IMC.
- Low-energy servers.
- Cloud computing.

These trends will change architectures, deployment models, and related security and management processes around the systems for which IT is responsible; however, users will only see the result in the form of applications and services. When considering these trends, think of the message that can be easily delivered to business users and consumers — it often focuses on the derivative impact, rather than the trend itself. Cloud computing, which has a broader popular connotation, is the exception to this; however, don't ignore the need to educate users on the hidden challenges and consequences of cloud that IT sees, but users often do not.

Gauging the impact

The direct impact of a trend is the most obvious and clear vector, but it is critical that other impact vectors be examined. Derivative impact examines how one trend affects another area. This impact may be to drive a change in the level or nature of how another technology is used. For example, the extensive use of multiple mobile devices and the use of additional intelligent connected devices in the office are likely to put a strain on wireless networks in many offices.

Another derivative impact could be the need to change IT or business processes to address challenges posed by the strategic technology or to ensure that the benefits of the technology are achieved. For example, the tenets of cloud computing are driving the trend toward more continuous application development and integration. This, in turn, will push IT organizations to bring development and operations groups together from a process and tools perspective.

Not all derivative or indirect impacts are guaranteed. Additional actions may be required to deliver the anticipated impact. For example, it may appear easy to use cloud computing to reduce total costs for a particular activity by shifting to an operational cost model and reducing the need for IT resources. However, if actions are not taken to actually reduce resources used or shift them to new value-added activities, the promised impact will not be realized.

Another effect that must be examined is disruptive impact. How could a particular trend disrupt users' behaviors or expectations, industry or business models, IT organizations or IT markets? For example, the trends toward cloud computing, big data and extreme information management are likely to disrupt many traditional approaches to data warehousing and data management, forcing a shift in how these activities are executed.

However, disruption is not always negative or painful. When properly exploited, a disruptive shift can be used to deliver value to the organization. For example, the shift to cloud computing is disruptive, but it creates an opportunity to leverage the cloud to drive business innovation.

Finally, any analysis of technology trends must consider combined impact over time. This is an often overlooked, but enormously critical area to examine. Technology trends have impact individually, but often have a greater effect when a number of trends and related technologies and initiatives are combined in new or unique ways, or when there is a complementary congruence of technology trends in related areas. This congruence may create a new, higher-order technology trend or result in a fertile environment for the emergence of other targeted technologies in the future.

Cloud computing is a classic example of a new trend emerging from this congruence. Technology trends such as real-time infrastructure (RTI), virtualization and automation, service-oriented architecture (SOA), the internet, browsers and the web, and Web 2.0 combined to give birth to cloud computing.

Ensuring that proper strategies are established and expectations set for technology, deployment into the Islamic market is crucial. Getting this right will determine whether this market proves to be a genuine revenue opportunity or an investment money pit.

David Cearley and Carl Claunch are vice-presidents at Gartner Research. They can be contacted at MalaysiaGartner@text100.com.

A new perspective

BADLISYAH ABDUL GHANI suggests a practical approach to industry standardization; beginning with prudential management. The executive director and CEO of CIMB Islamic shares his thoughts with Islamic Finance *news*.

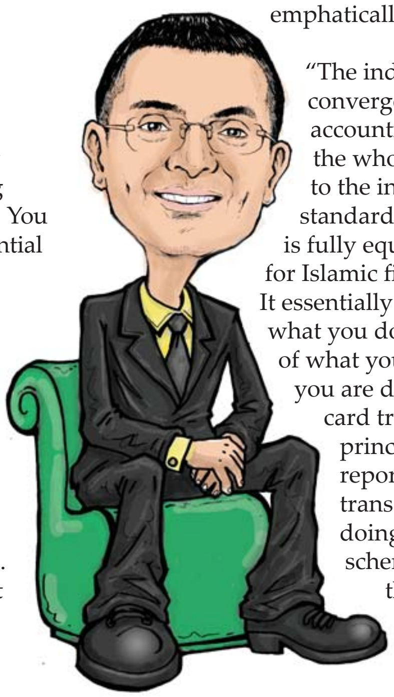
Badlisyah Abdul Ghani has a lot of things on his mind and one of them is the perennial issue of industry standardization. As one of the most prominent and experienced Islamic bankers in the industry at present, he is tasked with managing a bank with RM60 billion (US$20.08 billion) in assets, overseeing all Islamic banking activity across the bank's regional markets, seeking new business and ensuring that CIMB Islamic is well-represented in domestic and international headline-making deals — amongst other things.

His clout in the industry is undeniable, with many global players seeking to follow the footsteps of CIMB Islamic, particularly in terms of structural innovation and product development. Badlisyah has also always been known amongst his industry peers as a no-nonsense straight talker. He is one of the few who would call a spade a spade — which is why when he speaks, many are sure to listen.

Throughout his career Badlisyah — a lawyer by qualification but determined to break into the banking industry from the start — has sat through countless high profile meetings involving central banks, regulators and standard setting bodies. And the issue he believes requires the most attention in the industry is that of prudential management.

Dear Prudence

"Prudential management, which includes capital management and liquidity management, is something that must be standardized. You need to manage the prudential management requirement effectively by having the right financials to report. Essentially, prudential standards effectively influence the behavior of financial institutions: how they conduct their activities and how they manage their risk exposures, amongst others. This is to ensure they don't exceed their capacity and over-expose themselves."



From a Shariah management perspective, Badlisyah believes that there is no requirement whatsoever for standardization: "It is against the workings of Shariah. Shariah provides for the ability of it being applied on a jurisdictional basis subject to local parameters. So if you have an international standard that totally ignores local parameters, then Islamic finance cannot be transacted in that local jurisdiction. Having said that however, I would not mind having a Shariah standard that facilitates and allows for this diversity. Essentially, you can have a standard but it can be applied differently in different jurisdictions; therefore despite its differing applications it is still recognized to be Shariah compliant."

Outside the box

It is clear from the start of the interview that Badlisyah has a practical and macro-perspective approach on the issues currently facing the industry. And instead of sticking to the tired old cliché of having to create standards specific to the Islamic finance industry, he throws a curveball by saying that there is in fact no need for an 'Islamic' accounting standard.

"Do we need to have an Islamic accounting standard? Is there such a thing as an Islamic accounting standard? The answer is no," he states emphatically.

"The industry needs to converge to the international accounting standard, because the whole world is converging to the international accounting standard. And this standard is fully equipped to account for Islamic financial transactions. It essentially asks you to report what you do and the substance of what you do. For instance, if you are doing an Islamic credit card transaction under the principle of Ijarah, you report it as a credit card transaction. If you are doing a home financing scheme under Ijarah, then you report it as home financing. This is because each transaction carries a different risk profile, and therefore when people look at your P&L statement and balance sheet, they will get the full picture of your bank's risk profile. That is why we need to make sure that everyone follows the international standard."

Badlisyah reiterates: "An accounting standard facilitates the accounting of different activities — be it conventional or Islamic."

> ***"Do we need to have an Islamic accounting standard? Is there such a thing as an Islamic accounting standard? The answer is no"***

Soul of the industry

"The backbone of the industry is the bankers, while its soul is its Shariah scholars," Badlisyah points out, when speaking about suggestions in the market to regulate Shariah scholars. "I have always said that Shariah scholars should be managed like any other professionals. They are the equivalent of lawyers, accountants, doctors, architects and the like. The only difference between Shariah scholars today and the other professions is that they have professional bodies, and in most countries, they have legislation to govern the profession."

Badlisyah suggests the creation of an Islamic Finance Scholars Professions Act, which in essence would govern scholars' activities, similar to how the Legal Professions Act governs lawyers. "They also need to have some form of professional training before they are allowed to even give advisory services

continued...

Continued

to anyone if they want to be a practicing Islamic finance advisor."

As one who does not believe in shoe-boxing people into a specific mould, Badlisyah feels that the growth of the Islamic finance industry should also accommodate Shariah graduates looking to explore career options beyond religious advisory or "working as religious teachers".

"But of course, there are some standard setting bodies that exist in their own sense of importance"

"I think there is still a lack of clarity in terms of what Shariah graduates can do in the financial market. With the advent of Islamic finance, there are now more opportunities for them, beyond the traditional roles. If we establish the Islamic Finance Scholars Professions Act, it will allow graduates to seize new opportunities. The level that the market is at now requires what the lawyers and accountants have. The industry wants to see Shariah scholars being managed just like any other advisory professions that exist in the market."

Badlisyah also highlights the importance of dispelling the perception that standard setting bodies currently function more like "guideline setting bodies" as their standards are viewed more as suggestions rather than the final word. "You have to differentiate between different standard setting bodies. You have the likes of the Islamic Financial Services Board (IFSB) which is backed by various governments, and therefore whatever prudential requirements they put up are usually adopted by those governments who support the standard setting initiative. Once it is adopted by the relevant regulators, then it becomes something that is required to be followed by players in the market.

"But of course, there are some standard setting bodies that exist in their own sense of importance." — *NH*

Risk management in Takaful

Like any fledgling industry, Takaful has its hands full trying to grapple with the various risks that face this young and alternative form of insurance. GAUTAM DATTA believes however that the most fundamental risk is the issue of sustainability of long-term capital — the 'capital conundrum'.

Conventional insurance as the mainstream insurance channel is widely perceived as being centuries old (over 300 years if insurance deals done by Lloyd's of London are assumed to be the beginning of modern day insurance) and has had the advantage of time to reflect and address its risk exposure. In comparison, Takaful is only about 30 years old. Its youth and the complexities of modern financial regulations make risk management in Takaful challenging.

Risk management is defined as a process of identification, assessment and avoidance or mitigation. In the context of Takaful, the focus is on traditional risks faced by an enterprise based along conventional lines. These would apply to the areas of business strategy, underwriting, investment and compliance — regulatory and Shariah, manpower etc.

In most Takaful conferences, these risks tend to be the main subjects of discussion. I believe the industry faces a more fundamental risk — that of sustainability and availability of long-term capital. Ernst & Young in its World Takaful Reports 2011 and 2012 remarked that performance of capital in the GCC Takaful segment has been below par. I fear that this will discourage future investment and will keep multinationals away from participating in Takaful ventures — which is essential to the growth of the industry. We have already seen the withdrawal of Allianz Takaful and the scaling down of AIG Takaful.

The cost of reinventing the wheel by not feeding off the experience of the conventional insurance industry gathered over three centuries will be very high. Let me share my thoughts on where the disconnect is in the current model, along with a possible solution.

The word Takaful originates from the Arabic word 'Kafala' which means 'solidarity'. It is the community spirit of mutual guarantee in the event of any of its members experience financial misfortune. This form was evident in the Code of Hammurabi (1772 BC). The principle is that of risk sharing amongst the policyholders and not of risk transfer as embodied in conventional forms of insurance. Notwithstanding the mutual aspect of Takaful, current regulations require capital to establish a Takaful operation.

> ***"Poor return on equity is driven by the fundamental mismatch between the concept and practice of Takaful where capital is the critical differentiator"***

The capital providers are known as operators, who in a Wakalah model (which happens to be the most widely adopted structure) manage the policyholders' funds as an agent for the policyholder. In return for this service, the operator gets a fee that is expected to cover operational cost and reasonable profit. This profit however is not related to return on capital because Shariah does not stipulate requirements for capital. If the conditions are closely scrutinized, it will be seen that Shariah demands that policyholders be responsible for guaranteeing the solvency of the fund.

However, licensing regulations require minimum capital and to comply with the business model, regulation also imposes obligatory Qard Hassan undertaking from the shareholders/ operators. This basically means that shareholders actually put up their capital as a guarantee towards any solvency deficit in the policyholders' fund. In some distorted way, the perfect segregation between shareholders' and policyholders' fund gets compromised when shareholders put up their capital by way of guarantee for the policyholders' fund. Understandably this is done as an interest-free loan but the fact that this is not optional vitiates the spirit of the loan.

Furthermore, the practical reason for implementing this is because in the current market, Takaful companies would find it difficult to attract customers if they were told that they would have to contribute an additional amount towards the fund in the event of a deficit, thus defying the basic concept of risk sharing. Current practice results in policyholders sharing risks only at the time of surplus and shareholders taking on the load in case of deficit. The bias against the shareholder is not rewarded with any incentive.

In recent times, the concept of a performance fee based on the performance of the policyholders' fund has been debated and AAOIFI has acknowledged it but stipulated that the incentive should be to the credit of the managers and not the shareholders. Poor return on equity is therefore driven by the fundamental mismatch between the concept and practice of Takaful where capital is the critical differentiator.

The cliché "the end justifies the means" in the case of Takaful would mean all the work-around that takes place for the model to comply with the requirements of Shariah. While the basic mutual model would have complied with the requirements of Shariah, it must be recognized that a mutual does not require any capital. The regulators however do and a Takaful business plan usually paints an optimistic picture for the investors to attract them to invest. In almost all cases, the gap between that promise of return and the actual remains insurmountable.

Theoretically, the price of the capital can be built into a Wakalah fee in which

continued...

Continued

case there would be no discrimination against the capital provided by the shareholders. In reality however, the pricing is subject to market conditions and has very little bearing with technical pricing. Even on the conventional side of the business, most technical rates get heavily discounted to arrive at the commercial rate. In the event the performance of the portfolio falls below expectations which leads to a deficit in the policyholders' fund, it does not impact the P&L of the shareholder as the Wakalah fee is recovered in advance.

On the other hand, the obligation to provide an interest-free loan (Qard Hassan) in case of deficit in the policyholders' fund makes the return recovered in such a way a debatable one. It is transferring money from one pocket to another even though it may take place through different forms of income statement. The end result is that the policyholders' fund is obligated to pay off the shareholders' fund first till the Qard is extinguished.

In most cases, this may range from three to five years and even up to 10 years. In certain territories, regulations stipulate that shareholders must write off the loan after certain number of years. This should enforce impairment provisions on shareholders' balance sheet which is not in practice at present.

It has been acknowledged that the success of Takaful will depend on its appeal to the masses and not just for the Muslim population. The most attractive feature of Takaful is the sharing of surplus in the policyholders' fund. However, when this surplus is not forthcoming within a reasonable period of time, participants can soon become disillusioned. This can eventually lead to loss of credibility and the possible demise or marginalization of the Takaful industry.

> ***"The right way would be to treat Takaful as diametrically opposite to the conventional industry. If the conventional requires capital then Takaful should not be subject to it"***

The solution lies in the principle of regulation. In almost all cases, Takaful law, rules and regulation are variants of the conventional ones. As I have cited earlier in this article, setting up Takaful with work-around solutions actually creates more complexities. The right way would be to treat Takaful as diametrically opposite to the conventional industry. If the conventional requires capital then Takaful should not be subject to it.

However, in order to protect the interest of the policyholder, the shareholders may be called upon to guarantee any deficit in the fund and infuse cash if the fund runs out of cash to operate. The rule may call upon the policyholders' fund to pay a fee for this guarantee and a profit rate for the capital borrowed to maintain its cash flow.

I believe that Shariah scholars appreciate the complexities of modern day commerce. The imposition of a fee and profit rate may run counter to the original principles but by the same token, a minimum capital requirement is stipulated by modern day regulators and not by Shariah. The capital provided in the early stages to start the operation can be treated as cash borrowed towards working capital by the policyholders' fund and the same is paid back with an agreed profit rate over an agreed period of time.

Any requirement of capital to maintain solvency margin can be done by way of guarantee for which a fee can be paid for the duration of the guarantee. The rate of guarantee and rate of profit can be based on charges levied by an Islamic bank. These are early thoughts and brainstorming may help in finding a way out of the 'capital conundrum' in Takaful.

Gautam Datta is the CEO at Al Madina Gulf Insurance Co. He can be contacted at gautam.datta@amicoman.com.

Q "Prince Alwaleed has called for the Saudi Arabian stock market to open up to foreign investors outside of ETFs and share-swap deals by foreign investment banks. How will this impact the bond and Sukuk market, and will it encourage secondary market trading?"

A Opening up the Saudi Arabian stock market to foreign investors will provide a strong Middle Eastern base for Sukuk listing and trading. It will have the potential to attract a broad investor base throughout the region and, due to its geographical location, to link the European and Asian markets. Opening the stock market will, however, in itself not impact the willingness of investors to sell, and hence is by itself insufficient to encourage secondary market trading. A key requirement to enhance secondary market trading is to ensure that market makers are available to act as counterparty to any trade and to provide a price. With the prohibition of short selling within Islam, this would only be possible if there are parties available who will hold a position available for sale. When this is in place, the secondary market is likely to start developing.

NATALIE SCHOON
Consultant, Formabb

A The restrictions on non-residents dealing in Saudi Arabia securities have long frustrated foreign investors. Any relaxation would be welcome, but the government is likely to proceed cautiously as it is concerned that potentially volatile financial flows could undermine economic stability. Changes in oil prices have a major impact on investors' perceptions of Saudi Arabia's economy and market liberalization would make it more difficult to avoid capital flight during periods when oil prices weaken.

> ***"Market liberalization would make it more difficult to avoid capital flight during periods when oil prices weaken"***

Saudi Arabia is likely to emerge as the largest market for Sukuk issuance in the long-term given the scale and number of projects requiring finance. Eventually it may overtake Malaysia.

Widening the investor base to include non-residents could reduce the cost of Sukuk financing, which would be very helpful for originators. It would also bring more liquidity into the market, thus facilitating secondary trading. The possibility of arbitrage activity between Riyadh, Dubai and Kuala Lumpur could also make pricing keener and reduce margins, again lowering the costs of finance.

Despite these potential gains, Saudi Arabia is likely to remain a segregated market in the short, and possibly the medium-term. In the long-term however, as Saudi Arabian banks get more involved in Sukuk arranging, they are likely to lobby the government for greater liberalization.

RODNEY WILSON
Emeritus Professor, Durham University, UK; Visiting Professor, INCEIF

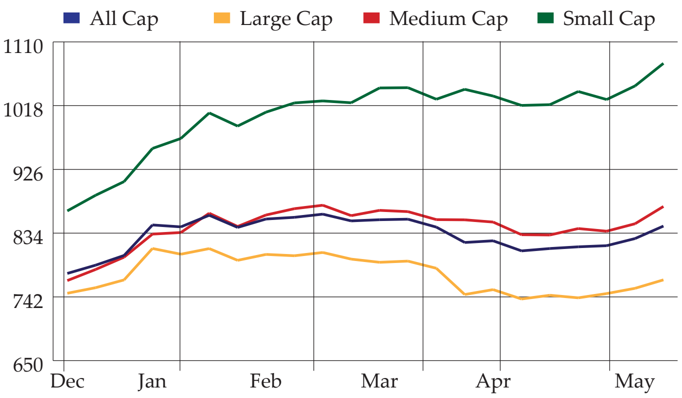
Next Forum Question:

The Lebanese central bank requires Islamic financial institutions to invest at least 50% of assets within Lebanon itself. Does a protectionist policy like this encourage growth, or limit expansion and development?

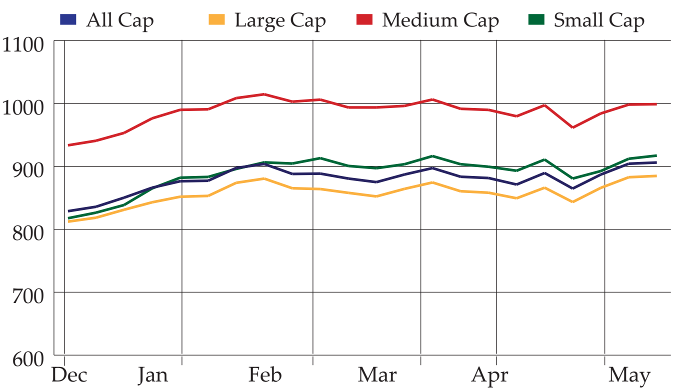
If you would like to air your views on the next Forum Question, please email your response of between 50 and 300 words to Christina Morgan, forum editor, at: Christina.Morgan@REDmoneygroup.com before the 24th May 2013.

ISSUER	SIZE	DATE ANNOUNCED
Egypt Government	US$10–15 billion	14th May 2013
Puncak Niaga Holdings	RM165 million	14th May 2013
Dubai Investments Company	US$300 million	13th May 2013
Almarai	US$500 million	9th May 2013
Saudi Basic Industries Cooperation (SABIC)	SAR40 billion	8th May 2013
Batu Kawan	TBA	7th May 2013
BNM Sukuk	RM1 bilion	7th May 2013
BNM Sukuk	RM1 billion	7th May 2013
Tilal Development Company	OMR50 million	6th May 2013
Khazanah Nasional	US$1 billion	25th April 2013
Dana Gas	TBA	24th April 2013
Egyptian government	EGP4.5 billion	24th April 2013
Transnet	TBA	22nd April 2013
Petronas Dagangan	RM2 billion	22nd April 2013
1MDB Global Investments	US$3 billion	19th April
Al Baraka Turk	US$200 million	17th April 2013
Barwa Bank	TBA	16th April 2013
International Islamic Liquidity Management Corporation	US$2 billion	15th April 2013
National Shipping Company of Saudi Arabia	TBA	12th April 2013
Dubai Investments	US$300 million	11th April 2013
Qatar Central Bank	QAR1 billion	4th April 2013
Moroccon government	TBA	3rd April 2013
Tunisian government	US$700 million	2nd April 2013
Dialog Axiata	RM1.2 billion	2nd April 2013
Al-Aqar Capital	RM1 billion	29th March 2013
PETRONAS Gas	RM5 billion	29th March 2013
Pakistan Domestic Sukuk Company	TBA	23rd March 2013
FWU Group	TBA	22nd March 2013
Al Hilal Bank	AED1.8 billion	19th March 2013
Saudi Electricity Company	US$2 billion	18th March 2013
Sadara Basic Services Company	TBA	18th March 2013
Shipping Company of Saudi Arabia	TBA	18th March 2013
Dubai Islamic Bank	US$1 billion	14th March 2013
Riyad Bank	TBA	13th March 2013
Qatar International Islamic Bank	US$2 billion	11th March 2013
Bank Asya	US$300 million	11th March 2013
Bank Muamalat Indonesia	IDR700 billion	5th March 2013
Agaoglu Group	US$2 billion	4th March 2013
Exim Bank	US$1 billion	26th February 2013
Investment Corporation of Dubai	TBA	26th February 2013
Directorate of National Savings	TBA	25th February 2013
Dubai Investments	AED1 billion	18th February 2013
Barwa Bank	TBA	18th February 2013
SGI-Mitabu	AU$100 million	5th February 2013
Paramount Corporation	TBA	31st January 2013
Ma'aden	TBA	31st January 2013
Qatar sovereign	QAR1 billion	31st January 2013
Saudi Aramco	US$200 billion	31st January 2013

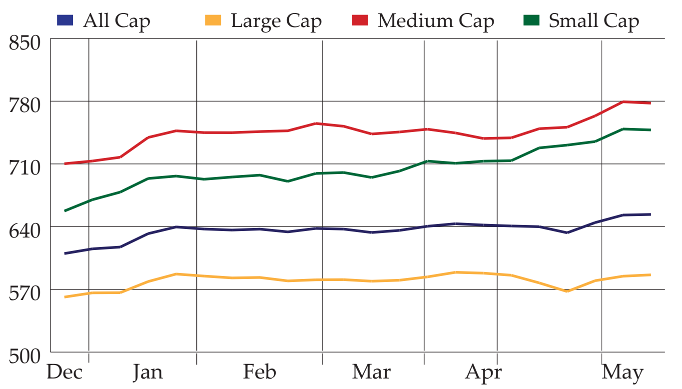
REDmoney Asia ex. Japan *6 Months*



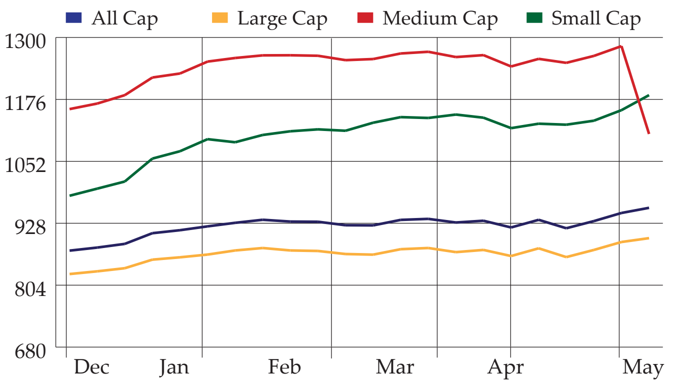
REDmoney Europe *6 Months*



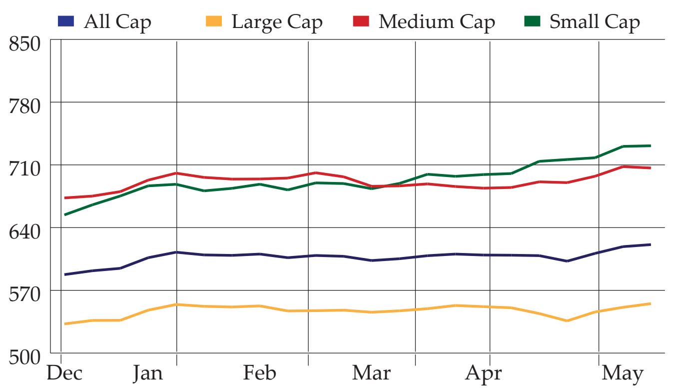
REDmoney GCC *6 Months*



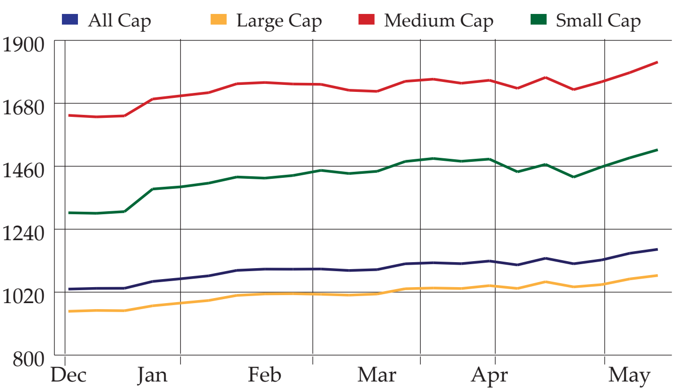
REDmoney Global *6 Months*



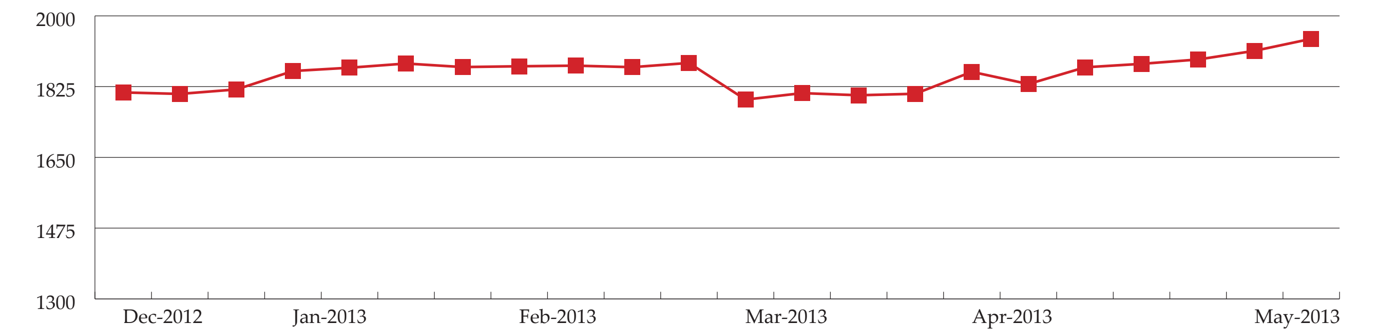
REDmoney MENA *6 Months*



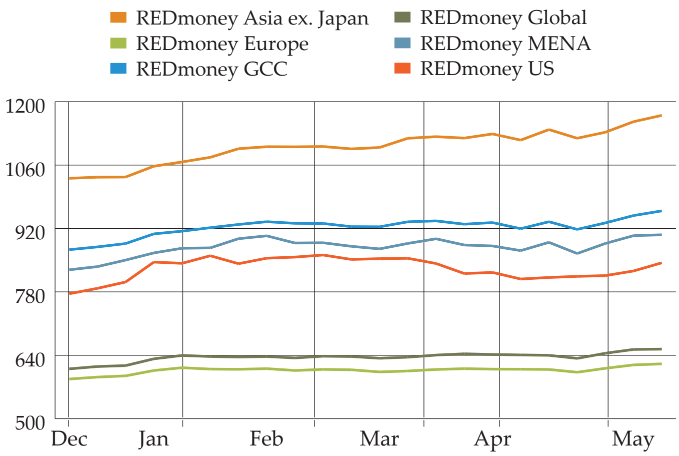
REDmoney US *6 Months*



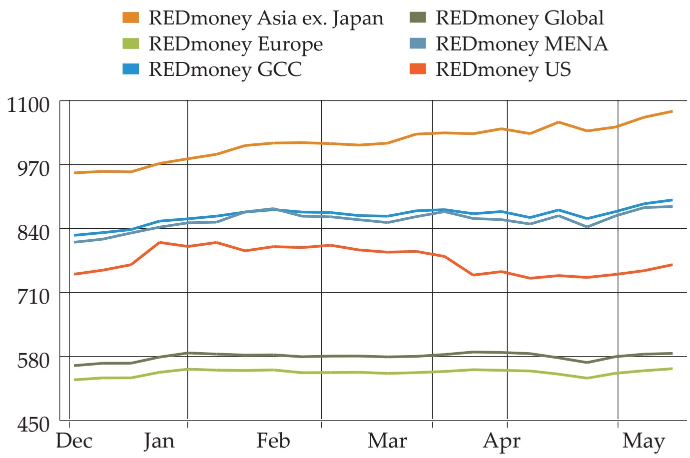
SAMI Halal Food Participation (All Cap) *6 months*



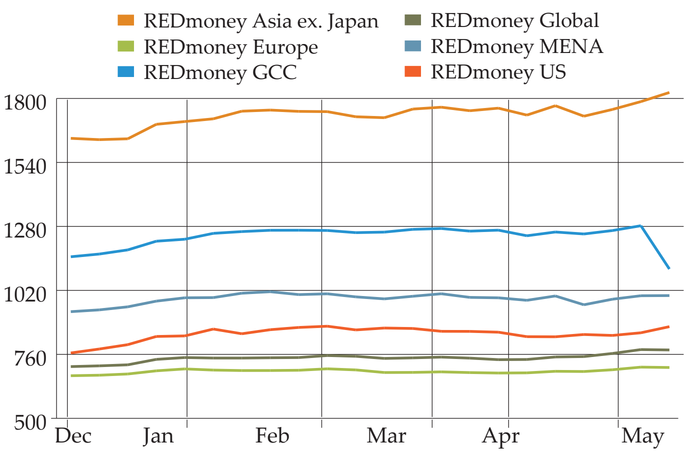
REDmoney Global Shariah Index Series (All Cap) *6 Months*



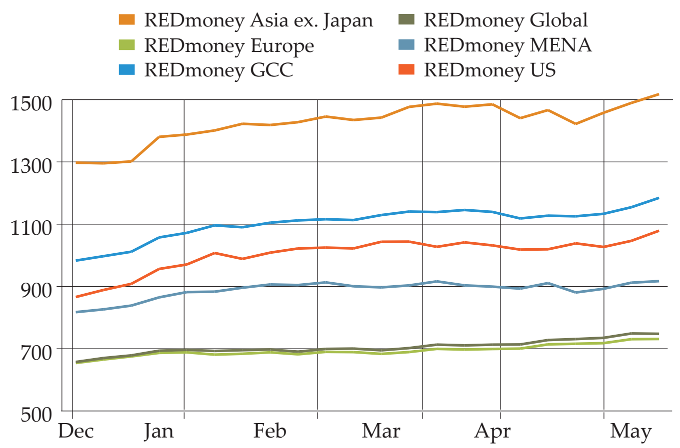
REDmoney Global Shariah Index Series (Large Cap) *6 Months*



REDmoney Global Shariah Index Series (Medium Cap) *6 Months*



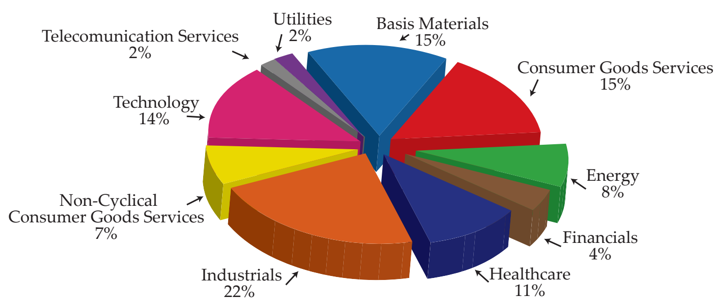
REDmoney Global Shariah Index Series (Small Cap) *6 Months*



REDmoney Global Shariah

Equities are considered eligible for inclusion into the REDmoney Global Shariah Index Series only if they pass a series of market related guidelines related to minimum market capitalization and liquidity as well as country restrictions.

Once the index eligible universe is determined the underlying constituents are screened using a set of business and financial Shariah guidelines.



The REDmoney Global Shariah Index Series powered by IdealRatings consists of a rich subset of global listed equities that adhere to clearly defined and transparent Shariah guidelines defined by Shariyah Review Bureau in Jeddah, Saudi Arabia.

The REDmoney Shariah Indexes provides Islamic investors with an accurate and Shariah-specific equity performance benchmark with optimized compliance credibility due to the intensive research conducted to ensure that index constituents do not conflict with the defined Shariah requirements.

IdealRatings™ is the leading provider of Shariah investment decision support tools to investors globally, including asset managers, brokers, index providers, and banks to empower them to develop, manage and monitor Shariah investment products and Shariah compliant funds. IdealRatings is headquartered in San Francisco, California. For more information about IdealRatings visit: www.idealratings.com

REDmoney Global Shariah Index Series

REDmoney Indexes IdealRatings®

For further information regarding REDmoney Indexes contact:

Andrew Morgan
Managing Director, REDmoney Group

Email: Andrew.Morgan@REDmoneygroup.com
Tel +603 2162 7800

Eurekahedge Middle East/Africa Islamic Fund Index

Top 10 Monthly Returns for Asia Pacific Funds

	Fund	Fund Manager	Performance Measure	Fund Domicile
1	TRIM Syariah Saham	Trimegah Securities	5.88	Indonesia
2	Al-Hadharah Boustead REIT	MIMB Investment Bank	5.11	Malaysia
3	CIMB Islamic Small Cap Fund	CIMB-Principal Asset Management	4.56	Malaysia
4	Mandiri Investa Atraktif - Syariah (Mitra Syariah)	Mandiri Manajemen Investasi	4.49	Indonesia
5	BNP Paribas Pesona Amanah	BNP Paribas Investment Partners	4.05	Indonesia
6	CIMB Principal Islamic Equity Growth Syariah	CIMB-GK Securities	4.03	Indonesia
7	Danareksa Syariah Berimbang	Danareksa Investment Management	4.02	Indonesia
8	MAAKL Al-Faid	MAAKL Mutual	4.00	Malaysia
9	AmIslamic Growth	AmInvestment Management	3.98	Malaysia
10	Dana Makmur Pheim	PHEIM Unit Trusts	3.89	Malaysia
	Eurekahedge Asia Pacific Islamic Fund Index		**0.74**	

Based on 56.96% of funds which have reported April 2013 returns as at the 14th May 2013

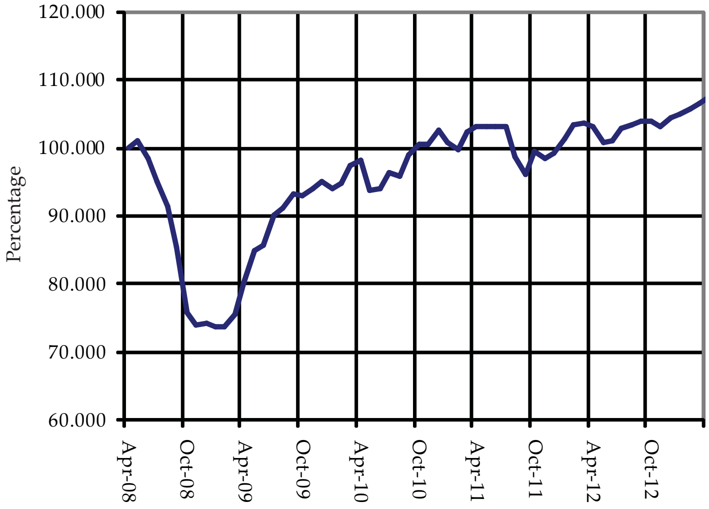
Top 10 Monthly Returns for Middle East / Africa Funds

	Fund	Fund Manager	Performance Measure	Fund Domicile
1	NBAD UAE Islamic (Al Nae'em)	National Bank of Abu Dhabi	9.96	UAE
2	Al Qasr GCC Real Estate & Construction Equity Trading	Banque Saudi Fransi	7.38	Saudi Arabia
3	Riyad Gulf	Riyad Bank	6.69	Saudi Arabia
4	Amanah GCC Equity	SABB	5.34	Saudi Arabia
5	AlAhli Saudi Mid Cap Equity	NCB Capital Company	5.07	Saudi Arabia
6	Al-Aman Islamic	Al-Aman Investment Company	4.62	Kuwait
7	Al Danah GCC Equity Trading	Banque Saudi Fransi	4.22	Saudi Arabia
8	Kuwait Investment	Kuwait Investment Company	4.22	Kuwait
9	Markaz Islamic	Kuwait Financial Centre	4.15	Kuwait
10	AlAhli Saudi Trading Equity	The National Commercial Bank	3.52	Saudi Arabia
	Eurekahedge Middle East / Africa Islamic Fund Index		**1.93**	

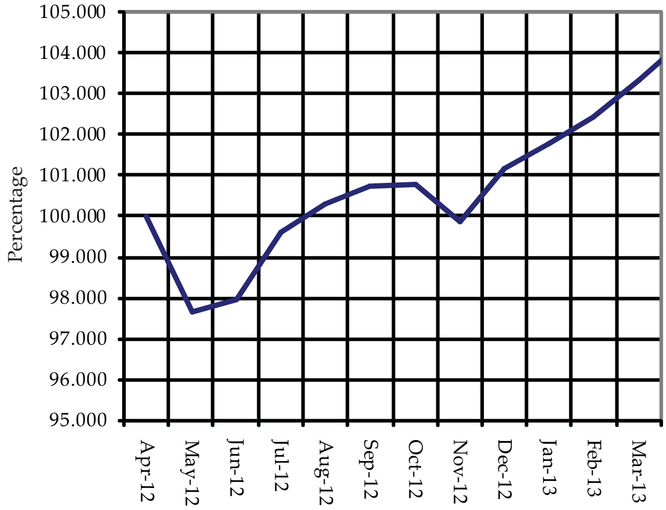
Based on 60.00% of funds which have reported April 2013 returns as at the 14th May 2013

Comprehensive data from Eurekahedge will now feature the overall top 10 global and regional funds based on a specific duration (yield to date, annualized returns, monthly returns), Sharpe ratio as well as delve into specific asset classes in the global arena – equity, fixed income, money market, commodity, global investing (which would focus on funds investing with global mandate instead of a specific country or geographical region), fund of funds, real estate as well as the Sortino ratio. Each table covering the duration, region, asset class and ratio will be featured on a five week rotational basis.

Eurekahedge Islamic Fund Balanced Index over the last 5 years



Eurekahedge Islamic Fund Balanced Index over the last 1 year



Top 10 Islamic Equity Funds by 3 Months Returns

	Fund	Fund Manager	Performance Measure	Fund Domicile
1	NBAD UAE Islamic (Al Nae'em)	National Bank of Abu Dhabi	16.73	UAE
2	Amanah GCC Equity	SABB	15.05	Saudi Arabia
3	Jadwa Saudi Equity	Jadwa Investment	11.44	Saudi Arabia
4	Jadwa GCC Equity	Jadwa Investment	11.16	Saudi Arabia
5	Jadwa Arab Markets Equity	Jadwa Investment	10.97	Saudi Arabia
6	Meezan Tahaffuz Pension - Equity Sub	Al Meezan Investment Management	10.91	Pakistan
7	Riyad Gulf	Riyad Bank	10.36	Saudi Arabia
8	Al Meezan Mutual	Al Meezan Investment Management	10.13	Pakistan
9	AlAhli Healthcare Trading Equity	The National Commercial Bank	10.08	Saudi Arabia
10	Meezan Islamic	Al Meezan Investment Management	9.90	Pakistan
	Eurekahedge Islamic Fund Equity Index		**4.05**	

Based on 59.38% of funds which have reported April 2013 returns as at the 14th May 2013

Top 10 Islamic Globally Investing Funds by 3 Months Returns

	Fund	Fund Manager	Performance Measure	Fund Domicile
1	AlAhli Healthcare Trading Equity	The National Commercial Bank	10.08	Saudi Arabia
2	AmOasis Global Islamic Equity	AmInvestment Management	4.55	Malaysia
3	EasyETF DJ Islamic Market Titans 100	BNP Paribas Investment Partners	4.42	France
4	Reliance Global Shariah Growth - USD I	Reliance Asset Management (Malaysia)	3.86	Guernsey
5	Al Shamekh Islamic Portfolio	Riyad Bank	3.12	Saudi Arabia
6	AlAhli Small Cap Trading Equity	The National Commercial Bank	3.05	Saudi Arabia
7	BNP Paribas Islamic Fund Equity Optimiser - Classic	BNP Paribas Investment Partners	2.60	Luxembourg
8	AlManarah High Growth Portfolio	The National Commercial Bank	2.19	Saudi Arabia
9	Al Shuja'a Islamic Portfolio	Riyad Bank	2.07	Saudi Arabia
10	Al Rajhi Global Equity	UBS	1.89	Saudi Arabia
	Eurekahedge Global Islamic Fund Index		**(1.68)**	

Based on 78.95% of funds which have reported April 2013 returns as at the 14th May 2013

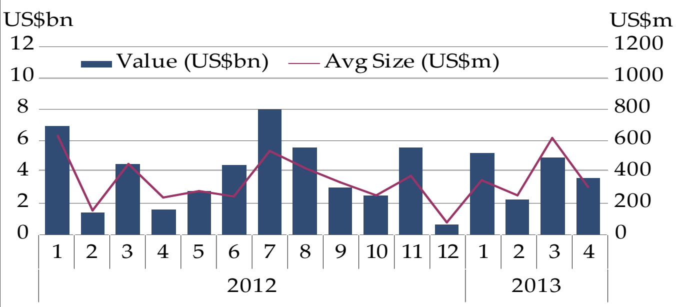
Contact Eurekahedge
To list your fund or update your fund information: islamicfunds@eurekahedge.com
For further details on Eurekahedge: information@eurekahedge.com Tel: +65 6212 0900

EUREKAHEDGE

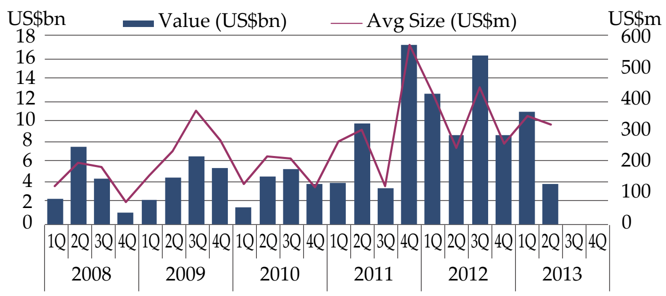
Most Recent Global Sukuk

Priced	Issuer	Nationality	Instrument	Market	US$ (mln)	Managers
29th Apr 2013	Albaraka Turk Katilim Bankasi	Saudi Arabia	Sukuk Murabahah	Euro market public issue	200	BNP Paribas, Emirates NBD, Al Hilal Bank, Barwa Bank
29th Apr 2013	Al-'Aqar Capital	Malaysia	Sukuk Ijarah	Domestic market private placement	124	Kuwait Finance House, AmInvestment Bank, Maybank Investment Bank
26th Apr 2013	Telekom Malaysia	Malaysia	Sukuk	Domestic market public issue	132	AmInvestment Bank
24th Apr 2013	Turkiye Finans Katilim Bankasi	Saudi Arabia	Sukuk	Euro market public issue	500	Saudi National Commercial Bank, HSBC, Citigroup, Noor Islamic Bank
8th Apr 2013	SIB Sukuk Co III	UAE	Sukuk	Euro market public issue	500	Standard Chartered Bank, HSBC, Kuwait Finance House, Al Hilal Bank
2nd Apr 2013	Sadara Chemical Company	Saudi Arabia	Sukuk Musharakah	Domestic market public issue	2,000	Deutsche Bank, Riyad Bank, Al-Bilad Bank, Alinma Bank
26th Mar 2013	Saudi Electricity Company	Saudi Arabia	Sukuk	Euro market public issue	2,000	Deutsche Bank, HSBC
21st Mar 2013	Asya Sukuk Company	Turkey	Sukuk	Euro market public issue	250	HSBC, National Bank of Abu Dhabi, Emirates NBD, Bank of America Merrill Lynch
13th Mar 2013	DIB Tier 1 Sukuk	UAE	Sukuk	Euro market public issue	1,000	Standard Chartered Bank, HSBC, National Bank of Abu Dhabi, Dubai Islamic Bank, Emirates NBD
13th Mar 2013	Gamuda	Malaysia	Sukuk Musharakah and Sukuk Murabahah	Domestic market private placement	129	HSBC
12th Mar 2013	Medjool	UAE	Sukuk Wakalah	Euro market public issue	1,000	Standard Chartered Bank, Abu Dhabi Commercial Bank, Dubai Islamic Bank, Abu Dhabi Islamic Bank, Citigroup, Emirates NBD
6th Mar 2013	Khazanah Nasional	Malaysia	Sukuk Musharakah	Domestic market private placement	322	CIMB Group, AmInvestment Bank
28th Feb 2013	Dubai Electricity & Water Authority	UAE	Sukuk Ijarah	Euro market public issue	1,000	Standard Chartered Bank, RBS, Dubai Islamic Bank, Abu Dhabi Islamic Bank, Citigroup, Emirates NBD
28th Feb 2013	Aman Sukuk	Malaysia	Sukuk Musharakah	Domestic market public issue	198	Lembaga Tabung Haji, RHB Capital, CIMB Group, AmInvestment Bank, Maybank Investment Bank
27th Feb 2013	Turus Pesawat	Malaysia	Sukuk Murabahah	Domestic market public issue	231	Lembaga Tabung Haji, RHB Capital, CIMB Group, AmInvestment Bank, Maybank Investment Bank
21st Feb 2013	National Higher Education Fund	Malaysia	Sukuk	Domestic market public issue	388	RHB Capital, AmInvestment Bank
15th Feb 2013	TH Plantations	Malaysia	Sukuk	Domestic market public issue	120	RHB Capital, Hong Leong Bank
31st Jan 2013	Cerah Sama	Malaysia	Sukuk Musharakah	Domestic market public issue	136	Maybank Investment Bank
30th Jan 2013	DanaInfra Nasional	Malaysia	Sukuk	Domestic market public issue	390	RHB Capital, Hong Leong Bank, CIMB Group, AmInvestment Bank, Maybank Investment Bank
29th Jan 2013	Teknologi Tenaga Perlis Consortium	Malaysia	Sukuk	Domestic market public issue	274	HSBC, CIMB Group, Affin Investment Bank, Maybank Investment Bank

Global Sukuk Volume by Month



Global Sukuk Volume by Quarter



	Top 30 Issuers of Global Sukuk						*12 Months*
	Issuer	**Nationality**	**Instrument**	**Market**	**US$ (mln)**	**Iss**	**Managers**
1	State of Qatar	Qatar	Sukuk	Euro market public issue	4,000	9.1	Standard Chartered Bank, Deutsche Bank, HSBC, QInvest, Barwa Bank
2	Saudi Electricity Company	Saudi Arabia	Sukuk	Euro market public issue	2,000	4.5	Deutsche Bank, HSBC
3	Sadara Chemical Company	Saudi Arabia	Sukuk Musharakah	Domestic market public issue	2,000	4.5	Deutsche Bank, Riyad Bank, Al-Bilad Bank, Alinma Bank
4	Turus Pesawat	Malaysia	Sukuk Murabahah	Domestic market public issue	1,734	3.9	Lembaga Tabung Haji, RHB Capital, CIMB Group, AmInvestment Bank, Maybank Investment Bank
5	Celcom Transmission (M)	Malaysia	Sukuk Murabahah	Domestic market public issue	1,590	3.6	HSBC, CIMB Group, Maybank Investment Bank
6	National Higher Education Fund	Malaysia	Sukuk	Domestic market public issue	1,563	3.6	CIMB Group, Maybank Investment Bank, RHB Capital, AmInvestment Bank
7	Republic of Turkey	Turkey	Sukuk	Euro market public issue	1,500	3.4	HSBC, Kuwait Finance House, Citigroup
8	Tanjung Bin Power	Malaysia	Sukuk	Domestic market private placement	1,298	3.0	CIMB Group, Maybank Investment Bank
9	DanaInfra Nasional	Malaysia	Sukuk	Domestic market public issue	1,242	2.8	Lembaga Tabung Haji, RHB Capital, CIMB Group, AmInvestment Bank, Maybank Investment Bank, Hong Leong Bank
10	Khazanah Nasional	Malaysia	Sukuk	Domestic market private placement	1,163	2.6	Kenanga Investment Bank, DRB-HICOM, CIMB Group, AmInvestment Bank
11	Perusahaan Penerbit SBSN Indonesia III	Indonesia	Sukuk Ijarah	Euro market public issue	1,000	2.3	Standard Chartered Bank, Deutsche Bank, HSBC
11	Dubai Electricity & Water Authority	UAE	Sukuk Ijarah	Euro market public issue	1,000	2.3	Standard Chartered Bank, RBS, Dubai Islamic Bank, Abu Dhabi Islamic Bank, Citigroup, Emirates NBD
11	DIB Tier 1 Sukuk	UAE	Sukuk	Euro market public issue	1,000	2.3	Standard Chartered Bank, HSBC, National Bank of Abu Dhabi, Dubai Islamic Bank, Emirates NBD
11	Abu Dhabi Islamic Bank	UAE	Sukuk	Euro market public issue	1,000	2.3	Standard Chartered Bank, Morgan Stanley, HSBC, National Bank of Abu Dhabi, Abu Dhabi Islamic Bank
15	Medjool	UAE	Sukuk Wakalah	Euro market public issue	993	2.3	Standard Chartered Bank, Abu Dhabi Commercial Bank, Dubai Islamic Bank, Abu Dhabi Islamic Bank, Citigroup, Emirates NBD
16	Johor Corporation	Malaysia	Sukuk	Domestic market public issue	939	2.1	CIMB Group, Affin Investment Bank, AmInvestment Bank, Maybank Investment Bank
17	Malaysia	Malaysia	Sukuk Murabahah	Domestic market public issue	817	1.9	Maybank Investment Bank
18	Sime Darby Global	Malaysia	Sukuk Ijarah	Euro market public issue	800	1.8	Standard Chartered Bank, HSBC, Citigroup, Maybank Investment Bank
18	IDB Trust Services	Saudi Arabia	Sukuk	Euro market public issue	800	1.8	Saudi National Commercial Bank, Standard Chartered Bank, BNP Paribas, HSBC, CIMB Group
20	Qatar Islamic Bank	Qatar	Sukuk	Euro market public issue	750	1.7	Standard Chartered Bank, Deutsche Bank, HSBC, QInvest
20	Dubai DOF Sukuk	UAE	Sukuk	Euro market public issue	750	1.7	Standard Chartered Bank, HSBC, National Bank of Abu Dhabi, Dubai Islamic Bank, Emirates NBD
20	BSF Sukuk	Saudi Arabia	Sukuk	Euro market public issue	750	1.7	Deutsche Bank, Citigroup, Credit Agricole
23	Qatar International Islamic Bank	Qatar	Sukuk	Euro market public issue	700	1.6	Standard Chartered Bank, HSBC, Qatar National Bank
24	Jafz Sukuk	UAE	Sukuk	Euro market public issue	650	1.5	Standard Chartered Bank, Abu Dhabi Commercial Bank, National Bank of Abu Dhabi, Dubai Islamic Bank, Abu Dhabi Islamic Bank, Citigroup, Emirates NBD
25	Syarikat Prasarana Negara	Malaysia	Sukuk Murabahah	Domestic market public issue	644	1.5	RHB Capital, Kenanga Investment Bank, CIMB Group
26	Malakoff Corporation	Malaysia	Sukuk	Domestic market private placement	577	1.3	Maybank Investment Bank
27	Golden Assets International Finance	Singapore	Sukuk	Domestic market public issue	571	1.3	RHB Capital
28	Turkiye Finans Katilim Bankasi	Saudi Arabia	Sukuk	Euro market public issue	500	1.1	Saudi National Commercial Bank, HSBC, Citigroup, Noor Islamic Bank
28	SIB Sukuk Co III	UAE	Sukuk	Euro market public issue	500	1.1	Standard Chartered Bank, HSBC, Kuwait Finance House, Al Hilal Bank
28	Emaar Sukuk	UAE	Sukuk	Euro market public issue	500	1.1	Standard Chartered Bank, HSBC, Dubai Islamic Bank, Abu Dhabi Islamic Bank, Emirates NBD, Noor Islamic Bank, Al Hilal Bank, Barwa Bank
28	EIB Sukuk	UAE	Sukuk	Euro market public issue	500	1.1	Standard Chartered Bank, HSBC, Dubai Islamic Bank, Emirates NBD, Credit Agricole
28	DIB Sukuk	UAE	Sukuk	Euro market public issue	500	1.1	Deutsche Bank, HSBC, National Bank of Abu Dhabi, Dubai Islamic Bank, Emirates NBD
					44,063	**100**	

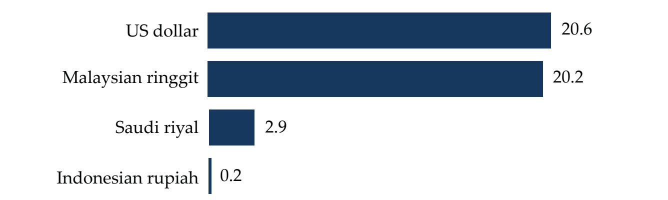
Top Managers of Sukuk — *12 Months*

	Manager	US$ (mln)	Iss	%
1	HSBC	6,377	35	14.5
2	Maybank Investment Bank	6,184	40	14.0
3	CIMB Group	5,705	40	13.0
4	Standard Chartered Bank	3,582	24	8.1
5	Deutsche Bank	3,171	7	7.2
6	AmInvestment Bank	2,726	31	6.2
7	RHB Capital	2,410	35	5.5
8	Citigroup	1,500	7	3.4
9	Emirates NBD	1,150	10	2.6
10	Dubai Islamic Bank	1,038	8	2.4
11	QInvest	988	2	2.2
12	Barwa Bank	913	3	2.1
13	National Bank of Abu Dhabi	846	7	1.9
14	Kuwait Finance House	743	5	1.7
15	Abu Dhabi Islamic Bank	688	5	1.6
16	Riyad Bank	587	2	1.3
17	Alinma Bank	500	1	1.1
17	Al-Bilad Bank	500	1	1.1
19	Lembaga Tabung Haji	487	6	1.1
20	Affin Investment Bank	396	4	0.9
21	Hong Leong Bank	360	8	0.8
22	Credit Agricole	350	2	0.8
23	Saudi National Commercial Bank	285	2	0.7
24	Kenanga Investment Bank	261	3	0.6
25	Abu Dhabi Commercial Bank	258	2	0.6
26	Al Hilal Bank	254	4	0.6
27	Qatar National Bank	233	1	0.5
28	BNP Paribas	210	2	0.5
29	Morgan Stanley	200	1	0.5
30	Noor Islamic Bank	188	2	0.4
	Total	**44,063**	**136**	**100**

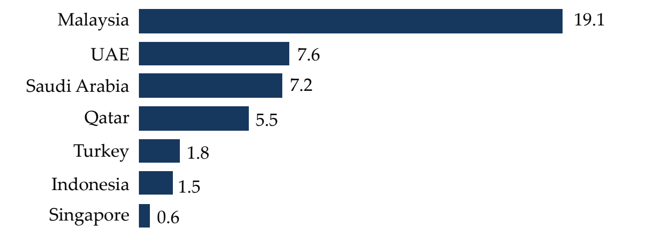
Top Islamic Finance Related Project Finance Mandated Lead Arrangers — *12 Months*

	Mandated Lead Arranger	US$ (million)	No	%
1	Arab National Bank	398	1	30.0
1	HSBC Holdings	398	1	30.0
1	Public Investment Fund	398	1	30.0
4	Emirates NBD	33	1	2.5
4	Noor Islamic Bank	33	1	2.5
4	Standard Chartered	33	1	2.5
7	Saudi Hollandi Bank	31	1	2.4

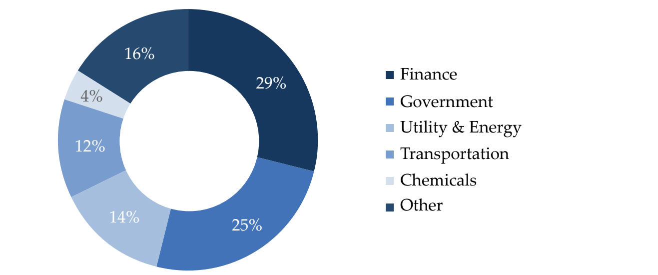
Sukuk Volume by Currency US$ (billion) — *12 Months*



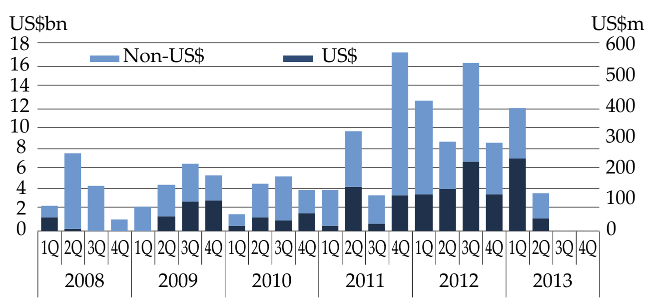
Sukuk Volume by Issuer Nation US$ (billion) — *12 Months*



Global Sukuk Volume by Sector — *12 Months*



Global Sukuk Volume - US$ Analysis



Top Islamic Finance Related Project Financing Legal Advisors Ranking — *12 Months*

	Legal Advisor	US$ (million)	No	%
1	Law Office of Hassan Mahassni	298	1	21.8
1	Linklaters	298	1	21.8
1	Norton Rose	298	1	21.8
1	White & Case	298	1	21.8
5	Hogan Lovells International	71	1	5.2
5	Pinsent Masons	71	1	5.2
7	Baker & McKenzie	31	1	2.3

Top Islamic Finance Related Loans Mandated Lead Arrangers Ranking
12 Months

	Mandated Lead Arranger	US$ (mln)	No	%
1	SABB	1,165	5	5.8
2	Arab National Bank	905	3	4.5
3	CIMB Group	842	3	4.2
4	Maybank Investment Bank	831	4	4.1
5	AmInvestment Bank	816	3	4.0
6	RHB Capital	794	2	3.9
7	Emirates NBD	765	6	3.8
8	Saudi National Commercial Bank	750	4	3.7
9	Banque Saudi Fransi	713	4	3.5
10	Abu Dhabi Islamic Bank	691	9	3.4
11	Standard Chartered Bank	683	7	3.4
12	Samba Capital	642	5	3.2
13	Dubai Islamic Bank	596	4	2.9
14	HSBC	574	5	2.8
15	Al-Rajhi Banking & Investment	541	3	2.7
16	Citigroup	516	4	2.6
17	Noor Islamic Bank	499	6	2.5
18	Riyad Bank	478	3	2.4
19	Credit Agricole	459	2	2.3
20	Mitsubishi UFJ Financial Group	382	2	1.9
21	Mashreqbank	362	6	1.8
22	Al Hilal Bank	351	6	1.7
23	National Bank of Abu Dhabi	341	3	1.7
24	Abu Dhabi Commercial Bank	291	2	1.4
25	Standard Bank	289	1	1.4
25	National Bank of Kuwait	289	1	1.4
25	Gulf Bank	289	1	1.4
25	DBS	289	1	1.4
29	First Gulf Bank	253	5	1.3
30	Saudi Investment Bank	218	1	1.1
30	JPMorgan	218	1	1.1
30	Bank Al-Jazira	218	1	1.1
30	Al-Bilad Bank	218	1	1.1

Top Islamic Finance Related Loans Mandated Lead Arrangers
12 Months

	Bookrunner	US$ (mln)	No	%
1	Credit Agricole	867	1	12.6
1	Banque Saudi Fransi	867	1	12.6
1	Al-Rajhi Banking & Investment	867	1	12.6
4	QInvest	624	3	9.0
5	Abu Dhabi Islamic Bank	597	5	8.6
6	HSBC	412	3	6.0
7	Emirates NBD	368	3	5.3
8	Citigroup	367	3	5.3
9	Samba Capital	362	2	5.3
10	Dubai Islamic Bank	293	2	4.2

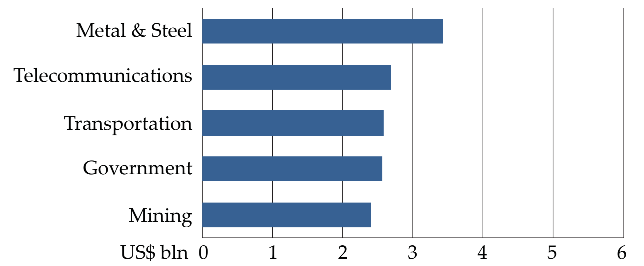
Top Islamic Finance Related Loans Deal List
12 Months

Credit Date	Borrower	Nationality	US$ (mln)
28th Mar 2013	Emirates Aluminium	UAE	3,400
25th Jul 2012	Zain Saudi	Saudi Arabia	2,600
11th Jun 2012	DanaInfra Nasional	Malaysia	2,525
18th Dec 2012	Ma'aden	Saudi Arabia	2,400
4th Jul 2012	Dubai Duty Free	UAE	1,749
13th Jun 2012	JAFZA	UAE	1,198
30th Jun 2012	TIBAH	Saudi Arabia	1,193
25th Jun 2012	Bawabat Al Shamal Real Estate Company	Qatar	1,154
2nd Jun 2012	DIFC Investments	UAE	862
9th Oct 2012	Turus Pesawat	Malaysia	816

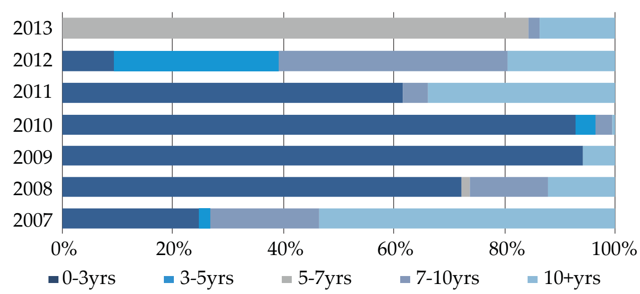
Top Islamic Finance Related Loans by Country
12 Months

	Nationality	US$ (mln)	No	%
1	Saudi Arabia	7,449	8	36.8
2	UAE	7,137	9	35.2
3	Malaysia	3,697	5	18.3
4	Turkey	577	3	2.9
5	Qatar	574	2	2.8
6	Sri Lanka	350	2	1.7
7	Singapore	207	1	1.0
8	Brunei Darussalam	170	1	0.8
9	Pakistan	70	3	0.4
10	Indonesia	30	1	0.2

Top Islamic Finance Related Loans by Sector
12 Months



Global Islamic Loans - Years to Maturity (YTD Comparison)



Are your deals listed here?
If you feel that the information within these tables is inaccurate, you may contact the following directly: Mandy Leung (Media Relations)
Email: mandy.leung@dealogic.com
Tel: +852 2804 1223

dealogic

MAY 2013			
16^{th} – 17^{th}	10^{th} Islamic Financial Services Board Summit	Kuala Lumpur, Malaysia	*IFSB Summit*
28^{th} — 29^{th}	**IFN Europe Forum**	**London, UK**	***REDmoney Events***
27^{th} — 28^{th}	9^{th} Annual World Islamic Funds and Financial Markets Conference (WIFFMC 2013)	Manama, Bahrain	*Mega Events*
JUNE 2013			
4^{th} — 5^{th}	4^{th} Annual World Islamic Banking Conference: Asia Summit (WIBC Asia 2013)	Singapore	*Mega Events*
12^{th} - 13^{th}	Sukuk Summit	London, UK	*ICG-Events*
AUGUST 2013			
27^{th}	**IFN Pakistan Roadshow**	**Karachi, Pakistan**	***REDmoney Events***
29^{th}	**IFN Sri Lanka Roadshow**	**Colombo, Sri Lanka**	***REDmoney Events***
SEPTEMBER 2013			
3^{rd}	**IFN Turkey Roadshow**	**Istanbul, Turkey**	***REDmoney Events***
5^{th}	**IFN Africa Forum**	**Cairo, Egypt**	***REDmoney Events***
11^{th}	**IFN Thailand Roadshow**	**Bangkok, Thailand**	***REDmoney Events***
OCTOBER 2013			
6^{th}	3^{rd} Global Islamic Microfinance Forum	Dubai, UAE	*Al Huda CIBE*
9^{th} — 10^{th}	4^{th} Annual World Islamic Retail Banking - WIRB	Dubai, UAE	*Fleming Gulf*
21^{st} — 22^{nd}	**IFN Asia Forum**	**Kuala Lumpur, Malaysia**	***REDmoney Events***
NOVEMBER 2013			
7^{th}	**IFN Hong Kong Roadshow**	**Hong Kong**	***REDmoney Events***
18^{th} — 19^{th}	**IFN Saudi Arabia Forum**	**Saudi Arabia**	***REDmoney Events***
20^{th} — 21^{st}	IREF Summit	London, UK	*ICG-Events*

Islamic Finance *news*

Editor	Nazneen Halim Nazneen.Halim@REDmoneyGroup.com
Contributions Editor	Sasikala Thiagaraja Sasikala@REDmoneyGroup.com
Managing Editor	Lauren Mcaughtry Lauren.Mcaughtry@REDmoneyGroup.com
Journalist	Nabilah Annuar Nabilah.Annuar@REDmoneyGroup.com Shaun Lee Shaun.Lee@REDmoneyGroup.com
Editorial Executive	Vineeta Tan vineeta.tan@REDmoneyGroup.com
Contributing Editor	Ellina Badri Ellina.Badri@REDmoneyGroup.com
Correspondents	Kamal Bairamov, Shabbir Kazmi, Shirene Shan
Forum Editor	Christina Morgan Christina.Morgan@REDmoneyGroup.com
Production Manager	Hasnani Aspari Hasnani.Aspari@REDmoneyGroup.com
Production Editor	Norzabidi Abdullah Zabidi.Abdullah@REDmoneyGroup.com
Graphic Designer	Eumir Shazwan Kamal Bahrin Eumir.Shazwan@REDmoneyGroup.com
Senior Production Designer	Mohamad Rozman Besiri Rozman.Besiri@REDmoneyGroup.com
Business Development Manager	Steve Stubbs Steve.Stubbs@REDmoneyGroup.com Tel: +603 2162 7800 x 55 Vasileios Pappas (*Dubai office*) Vasileios.Pappas@REDmoneyGroup.com Tel: +971 4 427 3624
Subscriptions Director	Musfaizal Mustafa Musfaizal.Mustafa@REDmoneyGroup.com Tel: +603 2162 7800 x 24
Subscriptions Manager	Ifran Tarmizi Ifran.Tarmizi@REDmoneyGroup.com Tel: +603 2162 7800 x 63
Subscriptions Accounts Manager	Mithun N Gangolli (*Dubai office*) Mithun.Gangolli@REDmoneyGroup.com Tel: +971 4 427 3638
Subscriptions Executive	Ratna Sari Ya'acob Ratna.Yaacob@REDmoneyGroup.com Tel: +603 2162 7800 x 38
Admin & Support Executive	Nurazwa Rabuni Nurazwa.Rabuni@REDmoneyGroup.com Tel: +603 2162 7800 x 68
Financial Controller	Faizah Hassan Faizah.Hassan@REDmoneyGroup.com
Deputy Publisher & Director	Geraldine Chan Geraldine.Chan@REDmoneyGroup.com
Managing Director	Andrew Tebbutt Andrew.Tebbutt@REDmoneyGroup.com
Managing Director & Publisher	Andrew Morgan Andrew.Morgan@REDmoneyGroup.com

Published By: REDmoney Group

MALAYSIA
21/F, Menara Park, 12, Jalan Yap Kwan Seng, 50450 Kuala Lumpur, Malaysia
Tel: +603 2162 7800
Fax: +603 2162 7810

UAE
PO Box 126732, 3^{rd} Floor, X2 Tower, Jumeirah Lake Tower (JLT), Jumeirah Bay, Dubai, UAE
Tel: +971 4 427 36 23

COMPANY INDEX